PROVINCE OF SASKATCHEWAN

REPORT OF THE PROVINCIAL AUDITOR

TO THE LEGISLATIVE ASSEMBLY

FOR THE

YEAR ENDED MARCH 31

1987

Provincial Auditor Saskatchewan

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April 30, 1988

To the Members of the Legislative Assembly

I have the honour to submit to the Legislative Assembly, this report, upon the examination of the accounts of the Government of the Province of Saskatchewan for the fiscal year ending March 31, 1987, to be laid before the Assembly in accordance with the provisions of Section 14 of The Provincial Auditor Act.

Respectfully Submitted,

W. G. Lutz, F.C.A.,
Provincial Auditor

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1987

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REPORT OF THE PROVINCIAL AUDITOR TO THE LEGISLATIVE ASSEMBLY FOR THE FISCAL YEAR ENDED MARCH 31, 1987

INTRODUCTION

Our parliamentary system of government is based on the principle of rule by law. The executive government (Executive Council and its appointed officials) is authorized to govern in accordance with laws passed by the Legislative Assembly. The executive government is accountable to the Legislative Assembly for its financial administration of the Province, including strict compliance with the law.

Sound financial administration practices help to ensure that the financial resources of the Province are properly managed within the general objectives of legality, probity and prudence. The Provincial Auditor's role is to audit the executive government's financial administration of the Province having regard to the above mentioned general objectives and to report to the Legislative Assembly where there are deficiencies in the manner in which the financial resources of the Province have been administered.

The Provincial Auditor Act governs the appointment of the Provincial Auditor and his staff, the powers of the Provincial Auditor and his responsibilities to audit and report. A copy of The Provincial Auditor Act is contained in the Appendix I to this report.

All entities, such as Boards, Commissions, Crown Corporations and Departments of the Government of Saskatchewan, are equally accountable to the Legislative Assembly. In keeping with this philosophy, the Legislative Assembly has established, through The Provincial Auditor Act, uniform audit and reporting requirements for every entity of the Government of Saskatchewan, regardless of the legal form of the organization and without regard to whether the Provincial Auditor is the sole auditor of that entity or whether another auditor also audits the accounts of an entity.

This uniformity of audit examination and reporting requirements is designed to ensure that the members of the Legislative Assembly will receive comparable information on matters relating to the quality of administration of public money for each entity of the Government of Saskatchewan so as to permit each entity to be held equally accountable.

1

AUDIT SCOPE

1.00 An audit examination of every organization of the Government is required to be conducted each year.

1.01 This annual examination is conducted in accordance with generally accepted auditing standards and accordingly consists of such tests and other procedures as I consider necessary to form opinions on the adequacy of the control systems implemented by management to ensure that essential records are maintained, public property is controlled and safeguarded, there is an effective check on the assessment and collection of revenue and to ensure that transactions are appropriately authorized; on compliance with authorities and on the financial statements prepared by management.

1.02 Where I am of the opinion that the management control systems allow more than a relatively low risk of error or fraud to occur in amounts that would be material to the organization being audited, where practicable, I examine or cause to be examined an additional selection of transactions to determine whether, for those transactions selected:

a) there was any wilful or negligent non-collection of public money;

b) public money has been duly accounted for and paid into the appropriate fund;

c) appropriations were exceeded or applied to unauthorized purposes;

d) expenditures had adequate authority and were properly vouchered and certified;

e) there has been a deficiency or loss to the Crown.

1.03 This examination of the transactions selected is also conducted in accordance with generally accepted auditing standards and accordingly includes such tests and other procedures as I consider necessary in the circumstances.

1.04 As is customary in auditing, an audit examination under The Provincial Auditor Act consists of applying appropriate tests and other procedures to transactions and accordingly may not disclose all conditions of errors or fraud which could be reported pursuant to Section 12 of The Provincial Auditor Act, as not all transactions of the Government have been examined. Accordingly, the reporting or non-reporting of an observation is not intended to provide any assurance on transactions which have not been examined.

1.05 In addition, because of the inherent limitations in any system of management controls, errors or fraud may occur and not be detected. Also, projection of any evaluation of the system of management controls to future periods is subject to the risk that management procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

1.06 The observations which follow are the significant observations made in connection with the audits performed in the previously described manner.

2

CURRENT ISSUES OF IMPORTANCE

PARLIAMENTARY ACCOUNTABILITY

2.00 Accountability in the public sector has been described as a fundamental prerequisite for preventing the abuse of delegated power and for ensuring, instead, that power is directed toward the achievement of broadly accepted goals with the greatest possible degree of efficiency, effectiveness, probity and prudence.

2.01 As the Officer of the Legislative Assembly whose role it is to assist the Members of the Legislative Assembly in holding the executive government accountable for the administration of public money, I am deeply concerned about the continued ability of the Members of the Legislative Assembly to hold the executive government accountable due to the lack of timely appropriate financial information provided to the Members of the Legislative Assembly. Timely and appropriate financial information enables Members to carry out their parliamentary duty which is to authorize and scrutinize the executive government's administration of public money. This duty is fundamental to our parliamentary democratic system of government.

2.02 In order to effectively control the public purse, the legislature must direct and control the spending by the executive government.

2.03 In Saskatchewan the spending plan of the executive government is set out in the Estimates. These Estimates, in the past, generally have been in sufficient detail to permit the legislature to direct and control the purposes for which money will be spent.

2.04 The executive government provided the Public Accounts to the Legislative Assembly giving full details of how the money was spent for the purposes previously authorized by the Legislative Assembly.

2.05 This accountability process was designed to prevent the abuse of delegated power provided the Legislative Assembly received sufficient and timely information to carry out its function.

SASKATCHEWAN PROPERTY MANAGEMENT CORPORATION

2.06 There has been a reduction of information provided to the Legislative Assembly because of the manner in which the executive government has used the Saskatchewan Property Management Corporation (SPMC) to spend public money.

2.07 The Estimates do not specifically direct the purposes for which SPMC may spend the money provided to it, thus SPMC can spend the money as the executive government sees fit without any direction from the Legislative Assembly. For example, in the 1986/87 Estimates Vote 13 Sub-vote 41 provided for "Payment to the Saskatchewan Property Management Corporation $10,242,000". This money was used, in part, for capital grants for schools, hospitals, universities and for public works. See chapter 20 of this report for a further discussion on this matter.

2.08 Finally, SPMC did not provide the Members of the Legislative Assembly with full details of the money spent. See paragraph 2.75 for a further discussion on this matter.

PUBLIC ACCOUNTS

Tabling of the 1986 and 1985 Public Accounts

2.09 In its April, 1975 report to the Legislative Assembly the Standing Committee on Public Accounts recommended:

> *"Your Committee considered the question of the amount of detail now appearing in the Public Accounts text. Your Committee recommends that the levels for detail to be shown in the Public Accounts be as follows:*
>
> *$10,000 per employee for wages and salaries*
> *$ 5,000 for payments to suppliers and*
> *$ 2,000 per person for travel and that where the the aggregate of any person exceeds the limits throughout all departments, this aggregate amount is to be also shown."* (emphasis added)

2.10 Subsequently, the Committee amended this recommendation to change the dollar amounts set out above to $20,000 per employee for wages and salaries and $10,000 for payments to suppliers.

2.11 For the fiscal years 1976 through to 1984, as part of the Public Accounts, a document called "Supplemental Information" was tabled in the Legislative Assembly. This document provided a report by payee on an aggregate basis as opposed to the payee information presently included in Volume 3 of the Public Accounts which is on a department by department basis.

2.12 I note that for the fiscal years 1985 and 1986 this payee information has not been tabled in the Legislative Assembly.

Tabling of the 1987 Public Accounts

2.13 Subsection 65(3) of The Department of Finance Act, 1983 states:

> *"Notwithstanding The Tabling of Documents Act, the minister shall, as soon as practicable after the public accounts are prepared, lay the public accounts before the Legislative Assembly."*

2.14 The Comptroller advised the Standing Committee on Public Accounts on April 14, 1988 that the Public Accounts had been printed and provided to the Minister, prior to that date.

2.15 I note that at the date of this report the Public Accounts have not been tabled in the Legislative Assembly.

2.16 I comment on this matter because I am concerned about the timeliness of information provided to the Members of the Legislative Assembly and because the tabling of the Public Accounts is being connected to the tabling of this annual report.

2.17 Appendix II contains a history of tabling dates for the Public Accounts and for my annual reports since I was appointed Provincial Auditor.

2.18 I maintain that there is no correlation between the dates for tabling my annual report and for tabling the Public Accounts. Further comments concerning timeliness are more fully discussed commencing at paragraph 2.44.

NON-COMPLIANCE WITH STATUTORY TABLING REQUIREMENTS

2.19 I note that there are numerous instances where financial statements have not been tabled in the Legislative Assembly as required by statute.

2.20 The instances are described further in chapters 6.34, 7.36, 13.21, 13.29, 15.00, 18.30, 18.71, 18.95, and 28.05 of this report.

LACK OF CO-OPERATION

2.21 I find it regrettable that, for the first time since my appointment, I must include in my annual report comments concerning a lack of co-operation in obtaining information that I consider necessary.

2.22 An auditor must be able to obtain all of the information, reports and explanations that he requires to discharge his responsibility to audit and report.

2.23 In order for the process to work effectively, there has to be co-operation from the auditee so that information, reports and explanations are willingly provided and provided in a timely manner.

2.24 This requirement for an auditor to have co-operation and have the right to obtain all information, reports and explanations is recognized in The Provincial Auditor Act where the Provincial Auditor is given the authority in Section 24 to obtain any information, report or explanation that he requires to discharge his duties regardless of whether or not there is another auditor appointed to audit the accounts of a particular Crown agency. Further, the Provincial Auditor is authorized by Section 12 to report where he has not received the information, reports and explanations that he required.

2.25 While there are no penalties set out in The Provincial Auditor Act for failure to provide required information to the Provincial Auditor, The Legislative Assembly and Executive Council Act contains appropriate provisions to ensure that required information is provided.

2.26 Section 24(1)(d) of The Legislative Assembly and Executive Council Act states:

> *"24.(1) The Assembly is a court and has all the rights, powers and privileges of a court for the purpose of summarily inquiring into and punishing:*
>
> *(d) assaults upon or interference with officers of the Assembly while in the execution of their duties;"*

2.27 The following instances are noted where I have not received all of the information, reports and explanations that I require to discharge my responsibilities to the Members of the Legislative Assembly or where, while I have received all necessary information, there has been a lack of co-operation in providing that information in a timely manner.

Crown Investments Corporation of Saskatchewan

2.28 As the Legislative Assembly's auditor responsible to audit all public money, I have the right to make such inquiries and to receive such information, reports and explanations that I consider necessary to discharge my responsibilities.

2.29 In my capacity as the auditor of all public money, my representatives requested access to minutes of the Board of Directors of the Crown Investments Corporation of Saskatchewan (C.I.C.)

2.30 On September 2, 1987, my representatives were refused access to these minutes.

2.31 The Standing Committee on Public Accounts discussed my inability to obtain information from C.I.C. and recommended that I report problems concerning my inability to get certain information.

2.32 After several requests to the President of C.I.C., I was finally informed by him that he was unable to provide me with copies of the minutes of the C.I.C. Board of Directors since they were considered confidential documents.

2.33 As this response was completely unsatisfactory, I wrote to the Minister in Charge of the Corporation requesting the minutes of the Board of C.I.C.

2.34 The Minister subsequently forwarded these minutes on January 25, 1988.

2.35 As a result, I am able to report that I have received from C.I.C. all of the information necessary to discharge my responsibilities with respect to my 1987 audit of all public money. However, the information was not provided in a timely manner.

2.36 Further, my reading of the minutes of the Board of Directors of C.I.C. causes me considerable concern.

2.37 On September 17, 1987, the minutes of the Board contained the following:

> *"The Board confirmed their direction to CMB Management to not release any information to the Provincial Auditor pending further discussions among the Board Members."*

2.38 On February 2, 1988, I wrote to the Minister asking that this minute be rescinded so that the co-operation of management with me in the performance of my duties will be assured.

2.39 On April 12, 1988, officials of C.I.C. again refused my representatives access to the minutes.

Department of Supply and Services

2.40 The officials responsible for the administration of the former Department of Supply and Services have not provided my representatives with information and explanations in a timely manner. Chapter 20 of this report more fully describes these circumstances.

Saskatchewan Property Management Corporation

2.41 I have not received from the auditors of the Saskatchewan Property Management Corporation the reports required for the year ended March 31, 1987. As a result, the Members of the Legislative Assembly do not have the information to know whether or not the Corporation had appropriate management control systems in place to safeguard and control public money and whether or not the Corporation has complied with all relevant authorities in the execution of its responsibilities. Chapter 36 of this report more fully describes this situation.

CONTINUING CONCERNS REGARDING ACCOUNTABILITY

2.42 In my 1986 annual report I reported that I considered it important that the Members of the Legislative Assembly seek answers to a number of serious concerns regarding the timeliness, sufficiency and appropriateness of information that the Members of the Legislative Assembly receive or do not receive in order to judge for themselves whether they have appropriate information to hold the executive government accountable and provided my observations on each of these concerns.

2.43 I again provide my observations on each of these concerns.

TIMELINESS

2.44 In my 1986 annual report I reported a timeliness problem with two key documents in the accountability process. These two key documents are the Public Accounts and the Provincial Auditor's Annual Report.

a) **Public Accounts**

2.45 The Legislative Assembly is responsible for the examination and approval of the Estimates. When called upon to approve the Estimates for a fiscal year, the Legislative Assembly does not have the audited financial statements for the Consolidated Fund and the Saskatchewan Heritage Fund for the immediately preceeding fiscal year or, as a substitute, audited interim financial statements for a portion of the previous fiscal year.

2.46 The financial statements for the Consolidated Fund and Saskatchewan Heritage Fund for the year ended March 31, 1987 were not completed and provided to me for audit until March 7, 1988, almost a full year after the year end. When the Members of the Legislative Assembly receive the information for 1986/87 it will be so dated that its value is diminished. It is difficult to understand why the necessary infrastructure is not in place to have these audited financial statements for the Consolidated Fund and the Saskatchewan Heritage Fund available to the Members of the Legislative Assembly within six months after the end of a fiscal year.

2.47 A similar comment was made in my 1986 annual report.

2.48 The Standing Committee on Public Accounts considered this matter and in its November 3, 1987 report to the Legislative Assembly, which was concurred in by the Legislative Assembly, recommended as follows:

> *"The Committee shared the concern of the Provincial Auditor that the Financial Statements for the Consolidated Fund and Saskatchewan Heritage Fund for the year ended March 31, 1986 were not yet completed at March 31, 1987, a full year after the year end.*
>
> *The Committee emphasized the importance of Financial Statements being completed in a timely way in order that the value of information provided is not diminished."*

b) **Provincial Auditor's Annual Report**

2.49 In my 1986 annual report I reported that because of a reduction in funding for my office in the 1986/87 fiscal year the auditing

work necessary to prepare my 1986 annual report was delayed with the consequence that this report was not completed and available for tabling until June, 1987 approximately 14 months after the year end.

2.50 I also reported the timeliness of completion of my annual report for 1987 and subsequent annual reports would continue to be delayed if no further funding is provided.

2.51 I continue to be concerned about the timeliness of my annual report.

VALUE FOR MONEY AUDITING

2.52 In order to hold the executive government accountable it, is critical that the Members of the Legislative Assembly receive information from their legislative auditor as to whether there has been due regard to economy, efficiency and effectiveness in the executive government's administration of public money.

2.53 The Provincial Auditor Act does not explicitly provide that the Provincial Auditor should examine, ascertain and report to the Legislative Assembly whether there has been due regard to economy, efficiency and effectiveness in the executive government's administration of public money.

2.54 The Members of the Legislative Assembly, therefore, do not have the information to hold the executive government accountable for economy, efficiency and effectiveness in the administration of public money.

2.55 In previous annual reports I reported that while The Provincial Auditor Act does not explicitly provide that the Provincial Auditor should examine and report upon whether there has been due regard to economy, efficiency and effectiveness in the executive government's administration of public money it was my opinion that the power to do so is implied within the Act.

2.56 I also reported that it was my intention not to expand the auditing and reporting done by my office until the Standing Committee on Public Accounts deals with its November 13, 1982 recommendation regarding this matter.

2.57 In its November 13, 1982 report to the Legislative Assembly the Standing Committee on Public Accounts recommended that:

> *"The Committee review the question of comprehensive auditing two audits hence."*

2.58 I look forward to the Committee's review and recommendation on this matter.

INDEPENDENCE

2.59 The Provincial Auditor is appointed an officer of the Legislative Assembly after consultation with the Chairman of the Standing Committee on Public Accounts. He is independent of the executive government in all but one critical aspect. The Provincial Auditor must obtain his funding from the executive government. This allows for interference in the effective discharge of the Provincial Auditor's duties. In 1986/87 the executive government reduced the funding for the Provincial Auditor. The effect of this reduction was a delay in my 1986 annual report and an ongoing delay for future annual reports. Timely reports are required for the Legislative Assembly to hold the executive government accountable. Reduced funding for my office results in reducing the accountability of the executive government.

2.60 In November, 1986 I prepared a special report pursuant to the provisions of The Provincial Auditor Act calling attention to the reduction in resources made available to my office and the consequent impact on my ability to provide my annual report to the Legislative Assembly on a timely basis. I submitted this report to the Audit Committee appointed by the Lieutenant Governor in Council, as required by Section 23 of the Act, in December, 1986. This report was not submitted to the Speaker prior to adjournment of the legislative session on December 23, 1986, and was, therefore, included as additional information in Appendix II of my 1986 annual report.

2.61 In my 1986 annual report I recommended that the funding for my office be determined by the Standing Committee on Public Accounts so that those I serve have input into my funding level and can determine the appropriate level of accountability of the executive government rather than the executive government determining its own level of accountability.

2.62 Since my 1986 annual report I have received a copy of the tenth report of the Standing Committee on Public Accounts to the House of Commons, Canada and I note with interest item 57 of that report:

> *"57. Your Committee considered the Main Estimates of the Office of the Auditor General for the fisca' year ending March 31, 1988. This was an historic occasion, the first time the Standing Committee on Public Accounts has considered the Auditor General's estimates, which traditionally have been referred to another Committee....."*

2.63 On September 15, 1987 the Standing Committee on Public Accounts (Saskatchewan) considered my 1986 recommendation and it was moved:

> *"That the Committee recommend to the Legislative Assembly that the funding for the Office of the Provincial Auditor be determined by the Standing Committee on Public Accounts."*
>
> This motion was negatived.

2.64 During the discussion of this matter by members of the Committee there appeared to be some concern about the appropriateness of using the Standing Committee on Public Accounts to consider the Provincial Auditor's estimates.

2.65 In light of the precedent established by the Standing Committee on Public Accounts for the House of Commons, I recommend that the Committee reconsider the above motion.

FINANCIAL STATEMENTS NOT TABLED

2.66 The Legislative Assembly has not enacted any legislation to ensure that the duly audited financial statements for Crown agencies established pursuant to The Business Corporations Act are tabled in the Legislative Assembly. The result of this deficiency is that the Legislative Assembly does not have all essential information to hold the executive government accountable for that public money administered by these corporations.

2.67 These corporations administer a significant amount of public money. Examples of these corporations are:

1) Meadow Lake Sawmill Ltd.

2) CIC Industrial Interests Inc.

3) Prairie Malt Limited

4) Westank Industries Ltd.

5) SaskPen Properties Ltd.

2.68 The Standing Committee on Public Accounts discussed this matter and in its report of November 3, 1987 made the following recommendations to the Legislative Assembly:

> *"That the Committee recommend that the Government consider preparing legislation to ensure that the duly audited financial statements for Crown agencies established pursuant to The Business Corporations Act are tabled in the Legislative Assembly, providing that the competitive position of the Crown Corporation is not prejudiced."*

OVERALL PICTURE NOT PROVIDED

2.69 The Members of the Legislative Assembly and the people require an overall picture of the provincial government's finances, what is owned, what is owed, where the revenues come from and how the revenue is spent in order to make informed decisions and choices. Legislation has been enacted that provides for this financial information. Section 65 of The Department of Finance Act, 1983 states:

"65(1) As soon as is practicable after the close of a fiscal year, the minister shall cause to be prepared by the comptroller a statement of the public accounts for that fiscal year.

(2) The public accounts prepared pursuant to subsection (1) are to show clearly and fully:

(a) the revenues and expenditures of the Government of Saskatchewan; and

(b) the state of the consolidated fund and of any trust and special funds managed by the minister;

and are to set forth all matters that are required to explain the financial transactions and position of the Government of Saskatchewan during and at the close of the fiscal year."

2.70 At the present time, while the Public Accounts do contain the financial statements for the consolidated fund, they do not contain a summary financial statement showing clearly and fully the revenues, expenditures and financial position of the Government of Saskatchewan.

2.71 This matter has been reported in previous annual reports.

2.72 In my 1986 annual report on this matter I reported that the Department of Finance had hired a consultant to study this matter to research the accounting issues related to summary financial statements.

2.73 The Standing Committee on Public Accounts considered this matter and made the following report to the Legislative Assembly in its November 3, 1987 annual report:

"The Committee considered the need for obtaining the Hopkins Report on Summary Financial Statements. The Committee was informed that the document was a policy paper. The Committee agreed to discuss further the recommendations in the Provincial Auditor's Report regarding Summary Financial Statements."

2.74 In addition to the failure to prepare and include in the Public Accounts summary financial statements for the Government of Saskatchewan, there is also a problem with the financial statements included in the Public Accounts. My opinion on the financial statements for the Consolidated Fund has contained reservations of opinion for the past two years. These reservations of opinion are more fully explained in Chapter 12 of this report.

LACK OF EXPENDITURE DETAIL

2.75 In the interest of accountability the Legislative Assembly requires the executive government to disclose by payee every payment of (a) salaries, services and gratuities of $20,000 or more; (b) travel, sustenance and vehicle

expenses of $2,000 or more; (c) other expenses of $10,000 or more and all grants, only where activities of the executive government are carried out by a government department.

2.76 The formation of the Saskatchewan Property Management Corporation (SPMC) has caused me concern relative to accountability.

2.77 In the past certain activities of the executive government were carried out by the Department of Supply and Services. Through an action of the executive government these same activities are now carried out by SPMC.

2.78 I note that the 1987 annual report for the SPMC does not disclose this payee information. As a result, the Members of the Legislative Assembly have lost essential information which they had available to them when those activities of the executive government were carried out by government departments.

2.79 In order for the Legislative Assembly to exact the same degree of accountability from the executive government for the administration of public money, it would be necessary for the Members of the Legislative Assembly to receive that payee information from SPMC that they previously received when the activities of SPMC were administered through the departments of the Government of Saskatchewan.

AGRICULTURAL CREDIT CORPORATION OF SASKATCHEWAN

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3

AGRICULTURAL CREDIT CORPORATION OF SASKATCHEWAN

LOAN SECURITY ARRANGEMENTS

3.00 In my 1986 annual report, I reported that systems development controls were inadequate with respect to the implementation of the Production Loan Program and the Livestock Cash Advance Program. In excess of $1 billion was disbursed under these programs without the requirement for any security or collateral to be provided. Only promissory notes signed by applicants and, in the case of corporations, personal guarantees from its corporate members, were obtained for these loans and advances.

3.01 The absence of more extensive security arrangements allows the possibility that loans and advances made by the Corporation may not be adequately protected against possible loss and accordingly, in my opinion, the rules and procedures applied are not sufficient to safeguard public money.

3.02 The audit examination disclosed the following observations which indicate the exposure to such loss is significant in certain situations where advances are outstanding but borrowers no longer meet eligibility criteria.

LIVESTOCK CASH ADVANCES

3.03 In the promissory note which is part of the application form for Livestock Cash Advances, each borrower covenants that he will repay that portion of the loan applicable to livestock that he has disposed of within 30 days of their disposal. To monitor compliance with this loan condition, the Corporation conducted herd inspections on a sample basis during 1986/87 to determine whether applicants still owned the livestock for which the Livestock Cash Advances were made. The results of the herd inspections indicated that 38% of the applicants for which herd inspections were conducted did not have the minimum herd size required under the terms of the advance. Total advances receivable from these applicants approximated $30 million, representing 48% of the dollar value of the accounts inspected. The amount of the deficiencies identified by this sample of herd inspections was in excess of $9 million.

3.04 A projection of these sample results for the entire population of Livestock Cash Advances receivable at March 31, 1987, totalling $184 million, would indicate the following:

> An estimated 7,000 applicants with outstanding advances of $83 million do not have the minimum herd size required under the terms of the loan.

The estimated portion of these advances for which the applicable livestock are no longer held by applicants is approximately $25 million.

3.05 The above figures indicate a widespread incidence of non-compliance by borrowers which may have a negative impact on the ultimate collectibility of these loans.

PRODUCTION LOANS

3.06 Under clause 32.4(b) of the Agricultural Credit Corporation of Saskatchewan Regulations, one of the eligibility criteria for the Production Logn Program is that, in the opinion of the Corporation, the applicant must be actively engaged in farming in Saskatchewan or managing a farm in Saskatchewan.

3.07 The Corporation obtained records of permit book holders for the 1985/86 crop year from the Canadian Wheat Board to determine whether applicants met the criteria described above. Loans were disbursed to applicants on this basis.

3.08 In May 1987, the Corporation obtained records of permit book holders for the 1986/87 crop year from the Canadian Wheat Board and have begun procedures to compare this information to the records of Production Loan recipients. The results of this procedure will be used to determine whether loan recipients are still eligible for the loans. This procedure had not yet been completed as at June 1987, and for the period prior to implementation of this procedure there have been no other procedures performed to assess the applicants' continuing eligibility.

3.09 As these procedures were not completed, the Corporation was not aware of all loan applicants who were no longer eligible for Production Loans at March 31, 1987

3.10 During the year, it came to the attention of the Corporation that a number of applicants who had received production loans had sold or ceased renting land included in their 1985/86 Canadian Wheat Board permit books. These instances came to the attention of the Corporation when applicants applied for loans on land for which other applicants had already received loans. However, since this information was not the result of a systematic procedure designed to detect such instances, the amount of loans receivable from ineligible borrowers is not determinable. As at March 31, 1987, the Corporation had investigated approximately 300 such cases where applicants no longer appeared to be eligible for production loans and had estimated that approximately $3 million in loans was collectible from these individuals as a result of no longer meeting the loan conditions. I am advised that collection proceedings have been commenced to secure repayment of these loans.

FAILURE TO RECOVER LIVESTOCK CASH ADVANCES AND INTEREST

3.11 Section 32.3 of The Agricultural Credit Corporation of Saskatchewan Amendment Regulations, 1985, states that *"all advances made....bear no interest until the date they are due as determined by the terms and conditions of the advance and, after that date, bear interest at the rate of 11 3/4% per annum."*

3.12 Pursuant to the above regulation, the Corporation established terms and conditions with respect to the Livestock Cash Advance Program. These terms and conditions, printed on the application form, set out eligibility requirements and terms of repayment.

3.13 The terms set out in the promissory note which is part of the loan application form for Livestock Cash Advances states that upon default in the repayment (within 30 days) of loan proceeds where herd numbers have been reduced by sale or disposition, *"....the entire principal sum shall immediately become due and payable without notice."*

3.14 When an insufficient number of livestock is determined by a herd inspection, Corporation management, in practice, requests repayment of the amount equivalent only to the shortfall of the number of livestock times the amount advanced per animal. Management has indicated that it is not obliged to exercise all of the Corporation's rights under the terms and conditions of the advance. However, the terms and conditions set pursuant to regulations and agreed to by applicants have not been amended to reflect that the Corporation's rights in this matter are discretionary.

3.15 Accordingly, it is my opinion that this practice is not consistent with the approved terms and conditions of the advance and results in the Corporation failing to collect money belonging to the Crown.

3.16 This matter was also reported in my 1986 annual report.

DATA SECURITY

3.17 In a computer environment, it is desirable to have a documented recovery plan for the timely reconstruction of computer files to ensure that continuous operations can be maintained in situations where preventative measures fail and computer files, documentation or equipment are damaged or destroyed.

3.18 This recovery plan would cover the following:

i) detailed steps to be carried out in reconstructing files;

ii) the persons responsible for carrying out the various steps;

iii) applications to be given top priority in reconstruction; and

iv) alternative manual procedures to be followed during the recovery period.

3.19 Formal arrangements should be made for alternative processing facilities to ensure that sufficient time can be made available for both reconstruction and regular processing. Periodic testing should be carried out to ensure that the back-up hardware facility remains compatible and that it can handle the additional volume of data.

3.20 In addition, arrangements should be made to ensure that at least one back-up copy of master files, programs and documentation is maintained in a safe off-site location which can be used in the event that copies at the computer facilities are accidentally damaged or destroyed.

3.21 In my 1986 annual report, I reported that no evaluation had been made of processing priorities to determine which applications are critical to the Corporation, and the Corporation had not documented and tested a recovery plan for its computerized operation. It was suggested that, should damage occur, the Corporation may find it difficult or impossible to recover in a timely and economic manner.

3.22 Although the above concerns were not addressed by the Corporation during the year ended March 31, 1987, management indicated that consideration would be given to these matters in conjunction with the relocation of the Corporation to Swift Current and the development of an in-house on-line computer environment during 1987/88.

4

AGRICULTURAL DEVELOPMENT CORPORATION OF SASKATCHEWAN

4.00 Inherent in an appropriate system of management controls is the formal communication of policy and delegation of authority from senior management to the appropriate employees and procedures to ensure that there is compliance with the policy and delegation.

4.01 During the course of the examination my representatives observed that the Corporation's policies and procedures manuals were not current and complete.

4.02 The result of the absence of this formal communication of policy and procedures increases the risk that control procedures may be inadequate or that they may not operate effectively thus permitting errors or fraud to occur without detection.

CONTROLS OVER ELECTRONIC DATA PROCESSING

4.03 As part of the audit examination, my representatives examined the Corporation's rules and procedures to determine whether the security systems are adequate to prevent unauthorized access to information or unauthorized manipulation of data on computer files and also to determine whether back-up files and programs and alternate processing facilities are available to ensure that processing capability can continue in the event of computer failure.

4.04 During the course of the examination my representatives observed that officials of the Corporation had not established and maintained a documented and approved security system. The absence of control procedures increases the risk of unauthorized access to or manipulation of computer information.

4.05 My representatives also observed that officials of the Corporation had not evaluated processing priorities to determine which applications are critical to the Corporation and had not documented and tested a recovery plan for its computerized operation. As a result, if damage or destruction occurs, the Corporation may find it difficult or impossible to recover in a timely and economic manner.

CROWN INVESTMENTS CORPORATION OF SASKATCHEWAN

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CROWN INVESTMENTS CORPORATION OF SASKATCHEWAN

RESERVATION OF OPINION

5.00 Section 12(1) of The Provincial Auditor Act requires me to include in my annual report any reservations of opinion made in an audit report.

5.01 My auditor's report on the consolidated financial statements of the Crown Investments Corporation of Saskatchewan for the year ended December 31, 1986 contains a reservation of opinion and reads as follows:

> *"I have examined the consolidated statement of financial position of Crown Investments Corporation of Saskatchewan as at December 31, 1986 and the consolidated statement of operations, reinvested earnings and cash flows for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.*
>
> *Note 1a explains that, in addition to the financial results of the subsidiary companies of Crown Investments Corporation of Saskatchewan, these consolidated financial statements include the financial results of those corporations designated by the Lieutenant Governor in Council as subject to Part II of The Crown Corporations Act, 1978. Generally accepted accounting principles require that when a company has one or more subsidiaries, that company's financial statements should be prepared on a consolidated basis, except where the parent company does not have control over the subsidiary's assets or operations and in certain other specific situations. This precludes from consolidation the financial results of companies that are not subsidiaries and the financial results of subsidiaries not controlled by the parent company. Since the corporations subject to Part II of The Crown Corporations Act, 1978 are not subsidiaries and since the Legislature has not delegated control of these corporations and Saskatchewan Oil and Gas Corporation to Crown Investments Corporation of Saskatchewan, the requirements under generally accepted accounting principles for inclusion of their financial results in these consolidated financial statements have not been met. In this respect, these consolidated financial statements are not, in my opinion, presented in accordance with generally accepted accounting principles. Had consolidated financial statements been prepared for Crown Investments Corporation of Saskatchewan and the subsidiary companies it controls, virtually every account in, and the information provided by way of notes to, the accompanying financial statements would be materially different. For example, the audited financial statements of the corporation subject to Part II of The Crown Corporations, Act, 1978 and*

Saskatchewan Oil and Gas Corporation reveal that assets of approximately $6.3 billion, Province of Saskatchewan's equity of approximately $1.2 billion, and net losses of approximately $86 million have been inappropriately included in these consolidated financial statements.

In my opinion, because these consolidated financial statements include the financial results of corporations that are not subsidiaries and the financial results of a subsidiary not controlled by Crown Investments Corporation of Saskatchewan as described in the preceding paragraph, these consolidated financial statements do not present fairly the consolidated financial position of the Corporation as at December 31, 1986 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles."

5.02 One of the purposes of my examination is to make a determination as to whether the readers of the financial statements can rely on the financial statements to reliably inform them regarding the financial position, results of operations and changes in financial position of Crown Investments Corporation of Saskatchewan (CIC) or whether these financial statements would mislead the reader. I make this determination by ensuring that the financial statements are prepared in accordance with generally accepted accounting principles.

5.03 I have determined that these consolidated financial statements do not present fairly the financial position, results of operations and changes in financial position of CIC in accordance with generally accepted accounting principles.

5.04 Inherent in the presentation of consolidated financial statements is the underlying assumption that the assets of the consolidated entity form one economic unit owned and controlled by a parent company.

5.05 The difference of opinion between CIC and myself, as to whether it is appropriate to consolidate Part II Crown corporations, centres around ones view as to whether or not the Legislative Assembly has given CIC in its own right, in The Crown Corporations Act, 1978, the authority to control the assets of the Part II Crown corporations and also whether or not CIC owns Part II Crown corporations such as Saskatchewan Power Corporation (SPC).

5.06 I am not aware of any legislation which gives CIC ownership of Part II Crown corporations such as SPC.

5.07 Further, it is my view and the view of my legal counsel that CIC does not by law, in its own right, have the authority to control the assets of Part II Crown corporations such as SPC. It is my view and that of my legal counsel that the control of the assets of Crown corporations such as SPC rests by law with the Board of Directors of SPC. Also, the Boards of Directors of Part II Crown corporations and SaskOil are appointed by the Lieutenant Governor in Council and not by CIC.

5.08 Management of CIC and their legal counsel hold the view that CIC does have the authority by law to control the assets of Crown corporations such as SPC

5.09 It is my view that CIC's position is inconsistent with parliamentary tradition in Saskatchewan. Presently in Saskatchewan the Boards of Directors of Crown corporations such as SPC are accountable, through the Minister in Charge, to the Legislative Assembly for the management of the assets of that corporation.

5.10 If CIC does in fact have the control of the assets of SPC as is claimed, then it should be the Board of Directors of CIC, through the Minister in Charge of CIC, who are accountable to the Legislative Assembly for the management of SPC since CIC would be responsible for decisions taken and not the Board of Directors of SPC.

5.11 Under existing legislation, I must continue with my view that the present consolidated financial statements are inappropriate as they should be called combined financial statements. I am also of the view that the correct consolidated financial statements which consolidate the corporations owned and controlled by CIC should be prepared and tabled.

5.12 Further, if the legislation is to be amended to give CIC ownership and control of Part II Crown corporations, it is my opinion that such amendments should not in any way make the Part II Crown corporations any less accountable to the Legislative Assembly.

5.13 This matter was also reported in my 1986 annual report.

5.14 On February 3, 1988, a member of the Crown Corporations Committee questioned the Minister in Charge of the CIC requesting clarification concerning the nature of the controversy between the Corporation and the auditor.

5.15 The Minister in Charge responded:

> *"I'm told that the consolidated financial statement has been prepared in this way every year since 1978, and from 1978 to 1984 the Provincial Auditor provided an unqualified audited report in every case.*
>
> *For some reason that has never been adequately explained to us -- in 1985, is it, that he qualified it, and some very complex accounting theoretical issue that certainly I don't understand and hasn't been adequately explained by the auditor to the officials, so my guess is that you're going to have to ask the auditor as to why, after six years I think it is, he has changed his mind about how the books should be kept."*

5.16 In my 1986 annual report I provided full details as to why I changed my position in 1985 from the position I took in 1978-1984.

5.17 Briefly, before 1983 the Canadian Institute of Chartered Accountants (CICA) had not recommended any specific accounting and auditing practices for public sector entities. Since 1983, the CICA has recommended a number of accounting and auditing practices for public sector entities. These new recommendations caused me to change my position in 1985.

5.18 The accounting profession, like all other professions, is not static. It is changing rapidly, not only in the public sector but also in the private sector. Professionals must be constantly aware of these changes and be prepared to adapt to new requirements. What may have been permissable in the past may not be acceptable when the body of knowledge increases to deal with prior uncertainties. As an example, the banking and trust fund industries of the private sector are currently under scrutiny and I expect changes will be forthcoming.

EXPENDITURES

5.19 The Provincial Auditor billed CIC for professional services in connection with the audit of Meadow Lake Sawmill Ltd. (formerly Prince Albert Pulp Company) for the year ended December 31, 1986 as follows:

Invoice	Date	Amount
79	December 10, 1986	$ 44,000
80	January 8, 1987	21,000
84	February 4, 1987	38,000
86	March 5, 1987	21,000
		$124,000

5.20 During the examination, it was observed that payment for these services was made to Peat, Marwick, Mitchell & Co., Chartered Accountants, rather than to the Provincial Auditor. In my opinion, these expenditures were not properly vouchered or certified.

DEPARTMENT OF ADVANCED EDUCATION AND MANPOWER

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DEPARTMENT OF ADVANCED EDUCATION AND MANPOWER

COMMUNITY COLLEGES

Borrowing Authority

6.00 Section 41 of The Department of Finance Act, 1983 states that:

> *"Notwithstanding the provisions of any other Act, no department, board, commission or agent of the Government of Saskatchewan and no Crown corporation shall borrow any moneys without the approval of the Minister."*

6.01 It was observed that for the year ended June 30, 1986 the Prince Albert Regional and the Regina Plains Community Colleges had obtained lines of credit without the approval of the Minister of Finance as required by The Department of Finance Act, 1983.

Northeast Community College

6.02 During the course of the examination it was observed that key administration personnel changed during the year. This resulted in a breakdown in rules and procedures for the disbursement of funds during the period of transition.

6.03 A test of transactions disclosed one instance of a duplicate payment in the amount of $3,114.

Prairie West Community College

6.04 During the course of the examination the following instance of non-compliance with authorities was observed:

6.05 The Community Colleges Act requires that all real and personal property additions and disposals be approved by the Department of Advanced Education and Manpower.

6.06 It was observed that the required approvals of the Department were not obtained for such transactions.

Regina Plains Community College

6.07 In addition to the unauthorized borrowing reported in paragraph .01 of this chapter, the following deficiency in the management control systems was noted:

6.08 In order to safeguard and control public property it is necessary to have a record of the assets for which an organization is responsible and a periodic physical examination to ensure that the assets continued to exist.

6.09 It was observed that there was not a detailed fixed asset ledger maintained nor were there regular independent counts of the fixed assets.

6.10 As a result of these weaknesses fixed assets may be lost or misappropriated without ready detection.

Saskatchewan Indian Community College

6.11 During the course of the examination the following instances of non-compliance with authorities were observed:

6.12 Section 18 of The Community Colleges Act reads:

> *"18.(1) The college board shall acquire and at all times maintain a bond with a bonding company or insurance company for the idemnification of the college board in the event of loss to it by reason of a fraudulent or criminal act of its treasurer or of any other officers or employees of the board as the person auditing the accounts and financial transactions of the board may specify.*
>
> *(2) The acquisition of a bond required under subsection (1) is a condition of employment of the treasurer and any other officers or employees of the board that have been specified by the person making the audit."*

6.13 It was noted that not all employees handling cash were bonded.

6.14 The Community Colleges Act requires that all cheques and supporting data be reviewed by two authorized cheque signers. Currently, cheques issued for a value of $2,000 or less are reviewed by only one cheque signer.

6.15 The Community Colleges Act also requires the Department of Advanced Education and Manpower approval for all fixed asset additions and dispositions. The Department of Advanced Education and Manpower approval has not been obtained for any fixed asset additions and dispositions.

6.16 The College wrote off the following accounts receivable without the required approval of the Board of Revenue Commissioners:

Staff advances for employees who quit without notice	$1,200
Accounts receivable	1,500

6.17 In addition to the above mentioned instances of non-compliance with authorities, my representatives observed the following deficiency in the management control systems:

6.18 In order to safeguard and control public property it is necessary to have a record of the assets for which an organization is responsible.

6.19 It was observed that there was not a detailed fixed asset record maintained.

6.20 As a result of this weakness fixed assets may be lost or misappropriated without ready detection.

South East Region Community College

6.21 Inherent in an appropriate system of management controls is the delegation of authority from the Board to senior management as well as procedures to ensure that all transactions comply with the delegation.

6.22 The rules and procedures for the College require that all payments be subsequently approved by the Board in order to ensure that management has operated in accordance with the Board's delegation.

6.23 During the course of the examination it was observed that the College did not have appropriate procedures to ensure that all payments were subsequently ratified by the Board. It was also observed that there were a number of payments that were not subsequently ratified by the Board.

6.24 Also, the satisfactory maintenance of minutes is an essential means of ensuring that significant decisions of the College that affect its operation are documented. During the examination, it was noted that the minutes of the Board of Directors had not been signed since October, 1985.

6.25 Section 18 of The Community Colleges Act reads:

> *"18.(1) The college board shall acquire and at all times maintain a bond with a bonding company or insurance company for the idemnification of the college board in the event of loss to it by reason of a fraudulent or criminal act of its treasurer or of any other officers or employees of the board as the person auditing the accounts and financial transactions of the board may specify.*
>
> *(2) The acquisition of a bond required under subsection (1) is a condition of employment of the treasurer and any other officers or employees of the board that have been specified by the person making the audit."*

6.26 During the course of the audit it was noted that Fidelity Bond Coverage was inadequate because the coverage was not adjusted to reflect changed personnel arising from staff turnover.

PRINCE ALBERT INSTITUTE OF APPLIED ARTS AND SCIENCES

6.27 Officials of the Department of Advanced Education and Manpower administer the Prince Albert Institute of Applied Arts and Sciences Revolving Fund.

6.28 The Revolving Fund is used in part to finance and account for the purchase and sale of books, supplies, etc.

6.29 During the course of the examination my representatives observed that employees had not followed procedures established by management with the result that the risk was increased that errors or fraud might occur and not be detected.

6.30 My representatives observed that the procedures established for the recording of cash receipts was not followed. Officials responsible for the recording of cash receipts recorded the name of the remitter and the date but failed to record the amount of the receipt. These officials also failed to restrictively endorse all cheques and money orders immediately on receipt.

6.31 My representatives observed that officials responsible for the determination and valuation of the accounts receivable, accounts payable and inventories of the Revolving Fund failed to determine and value these items in accordance with established policy. When these deficiencies were pointed out to the appropriate officials the records were subsequently adjusted to reflect the appropriate amounts.

SASKATCHEWAN STUDENT AID FUND

6.32 The Trustees of the Saskatchewan Student Aid Fund are responsible to administer the Saskatchewan Student Aid Fund.

6.33 A study and evaluation of the management control systems for the administration of the Saskatchewan Student Aid Fund disclosed the following conditions which, in my opinion, resulted in more than a relatively low risk that errors or fraud in amounts that would be material in relation to the Fund may occur and not be detected in a timely period.

Supervisory Controls

6.34 Essential to an appropriate system of management controls are control procedures which permit management to review, analyze and control the operations of the organization as well as procedures for the Trustees to monitor the performance of the management. Key elements of such a system are an effective interim financial reporting and monitoring system.

6.35 During the course of the audit my representatives observed that no interim financial statements were prepared during the year.

6.36 Accordingly, the Trustees did not have financial information to assess the performance of management.

6.37 Further, management did not have financial statements to use to review, analyze and control the operations of the Fund.

6.38 In addition, my representatives also observed that there was no evidence that management had reviewed and approved the journal entries, key reconciliations and the books of account.

6.39 As a result, it is my opinion that the rules and procedures applied were not sufficient to ensure that the accounts of the Fund were faithfully and properly kept.

6.40 This absence of control procedures contributed to the failure to comply with section 9 of The Student Assistance and Student Aid Fund Act, 1985 which reads:

> *"9(1) The trustees shall, in accordance with The Tabling of Documents Act, prepare and submit to the minister a report respecting the administration of the fund in each fiscal year, including statements respecting the portions of the fund used respectively for loans, bursaries and scholarships.*
>
> *(2) The minister shall lay the report mentioned in subsection (1) before the Legislative Assembly in accordance with The Tabling of Documents Act."*

6.41 At the date of this annual report, financial statements for the year ended March 31, 1987 for the Saskatchewan Student Aid Fund had not been tabled in the Legislative Assembly.

Authorization Controls

6.42 Each government agency is responsible to ensure that its transactions are properly authorized by management in accordance with relevant legislation. In order to adequately discharge this responsibility each agency must have in place a system of management controls sufficient to ensure that the above responsibilities are complied with.

6.43 Student loans and bursary assistance are based upon eligibility criteria established in the Regulations pursuant to The Student Assistance and Student Aid Fund Act, 1985.

6.44 The following conditions were observed where there was an absence of control procedures to ensure that only eligible recipients received eligible assistance.

Verification of Student Loan and Bursary Applications

6.45 During the audit, it was noted that there were insufficient procedures in place to verify the critical information provided by applicants in loan and bursary application forms. Furthermore, officials did not have a statistical audit strategy in place to allow for the detection of any invalid

bursary and loan payments or to allow management to project the magnitude of any detected unauthorized payments.

6.46 In 1986/87, the processing procedures were limited to ensuring all sections of the application forms were completed, the information was consistent throughout the application form and was consistent with any prior year's applications an applicant may have had. The only documents required to accompany the application form were immigration and enrolment information documents. These procedures were a departure from procedures performed in prior years. In prior years, officials required additional documentation such as parents' tax returns, students' marriage certificates, birth certificates and divorce and/or separation documents. In addition, employment history was verified and a confirmation of earnings had to be submitted within thirty days of the student commencing classes.

6.47 As a result, bursary and loan assistance payments were not properly vouchered to ensure they were in compliance with The Saskatchewan Assistance and Student Aid Fund Act, 1985 and the Regulations and to ensure the safeguarding of public money. It was noted during the audit that management had estimated that $196,870 of final bursary awards were cancelled during the 1984/85 year due to recipients not sending in their confirmation of earnings.

Payments of Bursaries Approved by the Department of Health

6.48 The Department of Health administers various Bursary Programs and subsection 8(1) of The Student Assistance and Student Aid Fund Act, 1985, provides for these bursary payments to be made out of the Fund. However, it was noted during the audit that the supporting documents received by the Trustees from the Department of Health for these payments did not contain any signatures by Department of Health personnel attesting to their validity and no follow-up procedures were performed by management responsible for the administration of the Student Aid Fund to ensure that these payments were properly vouchered and certified.

6.49 As a result, management had insufficient evidence to ensure that only authorized payments were made from the Fund.

Bursary and Loan Payments

6.50 The Trustees make bursary and loan payments for recipients through the educational institutions they attend. The Trustees rely upon these institutions to ensure that the recipients are in full-time attendance and to inform management when the recipient drops out of the institution. However, during the audit, management could not provide any evidence that they had entered into contractual arrangements with the institutions regarding the control functions and responsibilities expected of the educational institutions.

6.51 As a result, bursary and loan assistance may have been provided to persons who were ineligible for such assistance. Further, management may not have pursued collection of all amounts repayable from persons who did not complete their courses as required.

Electronic Data Processing

Data Security

6.52 The Trustees utilize the services of Saskatchewan Computer Utility Corporation (SaskComp) for data processing. The Trustees have the responsibility to ensure that the computer operating system and processing environment is administered in such a manner as to achieve proper integrity over the processing operations done for the Trustees, and to maintain security over Trustee programs and data files in accordance with policies and standards laid down by the Trustees.

6.53 In order to discharge this responsibility, officials must ensure their data files and programs are protected from unauthorized access.

6.54 Officials have acquired the use of a security software package offered by SaskComp to control access to data files and programs. This security software package provides many of the necessary controls for this purpose.

6.55 However, officials have not appropriately implemented this security software package so as to ensure that only appropriate personnel have access to appropriate data and program files.

6.56 This weakness allows the possibility that the security of Trustee data files and programs may be compromised.

6.57 Further, the Trustees have a responsibility to ensure that SaskComp maintains its computer operating system and processing equipment in such a manner as to achieve proper integrity over the processing operations done for the Trustees and to maintain security over the Trustees' programs and data files in accordance with the policies and standards laid down by the Trustees.

6.58 During the course of the examination it was observed that the Trustees had not established a system to monitor the performance of SaskComp on an ongoing basis nor have the Trustees received written assurance from SaskComp that appropriate controls are in place.

6.59 The absence of these control procedures also increases the risk that the Trustees' data files and programs may be compromised.

Systems Development Controls

6.60 Adequate controls for the development of systems require that certain prescribed procedures be observed and approvals obtained prior to the adoption of a new system or change to an existing system. These procedures should contain all control elements necessary to ensure that systems being developed are consistent with an organization's accounting policies, legislative requirements and management control objectives.

6.61 My representatives observed that the Trustees did not have appropriate system development controls.

6.62 The absence of these controls allowed the development of an inadequate system for student loans receivable.

6.63 The system developed does not permit the interest rate, set by the Minister at the time a loan becomes repayable, to be entered into the system.

6.64 As a result, the system is unable to calculate the correct interest owed by loan recipients.

Disaster Recovery

6.65 In a computer environment, it is desirable to have a documented recovery plan for the timely reconstruction of computer files to ensure that continuous operations can be maintained in situations where preventative measures fail and computer files, documentation or equipment are damaged or destroyed.

6.66 This recovery plan would cover the following:

i) detailed steps to be carried out in reconstructing files;

ii) the person responsible for carrying out the various steps;

iii) applications to be given top priority in reconstruction; and

iv) alternative manual procedures to be followed during the recovery period.

6.67 Formal arrangements should be made for alternative processing facilities to ensure that sufficient time can be made available for both reconstruction and regular processing. Periodic testing should be carried out to ensure that the back-up hardware facility remains compatible and that it can handle the additional volume of data.

6.68 In addition, arrangements should be made to ensure that at least one back-up copy of master files, programs and documentation is maintained in a safe off-site location which can be used in the event that copies at the computer facilities are accidentally damaged or destroyed.

6.69 During the audit my representatives observed that the Trustees did not have a documented and tested recovery plan which could be implemented if continuous operations were put in jeopardy by serious interruption internally or at SaskComp's premises.

Non-Compliance With Authorities

6.70 In addition to the foregoing management control deficiencies, my representatives observed the following transactions which did not comply with authorities:

Interest Charged on Loans Issued Between August 1, 1983 and May 1, 1986

6.71 The Trustees have a policy of charging simple interest on Saskatchewan Student Loans and applying all repayment to principal first, and only after the principal has been reduced to nil, are payments applied against accrued interest. However, subsection 11.1(6) of The Student Assistance and Student Aid Fund Amendment Regulations, 1983, states:

> *"...the minister shall: (a) calculate interest charges based on the rates established under the Canada Student Loan Act..."*

6.72 The Canada Student Loan Act charges compound interest and applies loan repayments, first to accrued interest and then to outstanding principal. This method of calculating interest and applying repayments results in a substantially different effective interest rate than that charged on Saskatchewan Student Loans by the Trustees.

6.73 Consequently, it appears that the Trustee's policy of charging simple interest and applying repayments on Saskatchewan Student Loans to principal first is not in compliance with the regulations.

Interest Rate on Loans Issued After May 1, 1986

6.74 Commencing on May 1, 1986, the Trustees advertised and subsequently issued loans with an interest rate of 6%. Not only did the Trustees state in its student loan brochures that all student loans issued after May 1, 1986 were at an interest rate of 6% but many promissory notes signed by students specifically stated this rate. Furthermore, the Minister issued regulations and guidelines to all participating agencies which specified the interest rate as being 6%.

6.75 It was noted during the examination that officials were treating these loans as having an interest rate of 10 3/8% with an interest write-down provision to 6% for the first three years the loans are in repayment instead of the entire loan term of six years. This appears to contradict the contractual loan agreements the Trustees entered into with the student as no time limit was set on the 6% rate.

6.76 Finally, it appears that the practice of writing down the interest rate on loans from 10 3/8% to 6% lacks proper statutory authority. Subsection 11.1(6) of The Student Assistance and Student Aid Fund Amendment Regulations, 1983 states:

"(6) With respect to each loan, the minister shall:

(a) calculate interest charges based on the rates established under the Canada Student Loan Act, as amended from time to time; and

(b) set the interest rate as at the date the interest-free period described in clause (2)(b) expires."

6.77 The rates established under the Canada Student Loan Act during the year under review was 10 3/8% not 6%.

6.78 I have been advised that management is seeking a legal opinion on these matters.

WASCANA INSTITUTE OF APPLIED ARTS AND SCIENCES

6.79 Officials of the Department of Advanced Education and Manpower administer the Wascana Institute of Applied Arts and Sciences Revolving Fund.

6.80 The Revolving Fund is used in part to finance and account for the purchase and sale of books, supplies and uniforms.

6.81 Essential to an adequate system of management controls are rules and procedures to ensure that sales are made only at authorized prices.

6.82 The pricing policy for the sale of books, supplies, etc. approved by Treasury Board is:

"Sales of books, supplies, etc shall be made at the laid-in cost plus a mark-up of not less than 20 percent."

6.83 The examination of the accounts disclosed that officials of the Department had followed a pricing policy of 20% for books, 10% for supplies and 0% for uniforms.

6.84 In addition, during the examination my representatives observed the following additional deficiencies in the pricing policy.

6.85 The term "laid-in cost" would, in my opinion, include the freight charges to get the books on site and also any foreign exchange costs for books purchased from the United States of America (U.S.).

6.86 My representatives observed that the conversion rate applied when pricing books purchased from the U.S. was based upon a fixed rate rather than a floating rate to reflect the rising rate of the U.S. dollar. Accordingly, the prices charged for products being sold were insufficient to recover the foreign exchange element of the "laid-in cost". The result was a loss of revenue to the Crown. The amount of the loss is estimated to be at least $6,000.

6.87 In addition, my representatives observed that officials have failed to include approximately $13,000 of freight costs for the purchase of books in the calculation of "laid-in cost" with the result that there was a further loss to the Crown.

DEPARTMENT OF AGRICULTURE

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7

DEPARTMENT OF AGRICULTURE

7.00 A study and evaluation of the management control systems disclosed the following conditions where, in my opinion, there is more than a relatively low risk that errors or fraud may occur in a significant amount:

1985 CROP DROUGHT ASSISTANCE PROGRAM

7.01 This program was administered by the Saskatchewan Crop Insurance Corporation and payment of benefits under the program was made by the Department of Agriculture based on a payee listing provided by the Corporation. During the course of my examination, it was observed that the Department had not documented its rules and procedures to ensure that the payee listing provided by the Corporation represents a lawful, proper and accurate request for payment of benefits under the program. Consequently, I am unable to determine that the rules and procedures applied by the Department were sufficient to ensure that the benefit payments were lawful, proper and accurate.

7.02 This matter was also reported in my 1986 annual report.

7.03 During the course of the examination, the following instances were noted where payments pursuant to this program resulted in an appropriation being applied in a manner not authorized by the Legislature

7.04 This program was established in the fiscal year 1985-86 and funding was provided by supplementary appropriation in Vote 1, sub-vote 110, Department of Agriculture - Grants under the 1985 Crop Drought Assistance Program. This appropriation lapsed at March 31, 1986. Certain eligible applicants had, however, made application for benefits under the program for which payment could not be processed prior to the lapse of the appropriation. These payments amounting to $2.9 million were processed in 1986-87 and charged to sub-vote 74, Payments under the Drought Relief Program and funded by virement from sub-vote 83 - Grant to Agricultural Credit Corporation of Saskatchewan for interest subsidies.

FARMERS' OIL ROYALTY REFUND ACT

7.05 Each government agency has a responsibility to ensure that its transactions are properly authorized by management in accordance with relevant legislation and in appropriate amounts. In order to adequately discharge this responsibility, each agency must have in place a system of management controls sufficient to satisfy management that the above legislative responsibilities are complied with.

7.06 An appropriation for payment of refunds pursuant to the Farmers' Oil Royalty Refund Act was provided in the Agricultural Division of the Saskatchewan Heritage Fund. The Heritage Fund (Saskatchewan) Act authorizes the Minister of Agriculture to pay these refunds.

7.07 The program was administered by the Department of Revenue and Financial Services and payment of refunds was made by the Department of Agriculture based on a payee listing provided by the Department of Revenue and Financial Services.

7.08 During the course of my examination, it was observed that the Department of Agriculture had not documented a system sufficient to determine that the payee listing provided by the Department of Revenue and Financial Services represents a lawful, proper and accurate request for payment of refunds pursuant to the Farmers' Oil Royalty Refund Act. The condition noted is a result of inadequate control procedures as opposed to lack of compliance with the existing control procedures.

7.09 I am unable to determine that the rules and procedures applied by the Department were sufficient to ensure that the refund payments were lawful, proper and accurate.

NON-COMPLIANCE WITH AUTHORITIES

7.10 In addition to the foregoing management control deficiencies, my representatives observed the following transactions that were not in compliance with authorities.

7.11 The Livestock Investment Tax Credit Regulations provides in Section 5, in part:

> *"5(1) Where a person claims a tax credit on livestock sold through the Saskatchewan Beef Stabilization Board, the Saskatchewan Pork Producers Marketing Board or the Saskatchewan Sheep and Wool Marketing Commission, he shall retain the statement of settlement from the agency as documentation of the transaction.*
>
> *(3) No tax credit is payable with respect to livestock sold or slaughtered without the documentation described in this section."*

7.12 During the examination, it was observed that tax credits are issued with respect to livestock sold through the Saskatchewan Beef Stabilization Board, the Saskatchewan Pork Producers Marketing Board and the Saskatchewan Sheep and Wool Marketing Commission without the statement of settlement from the agency being required as documentation of the transaction.

CONSERVATION AND DEVELOPMENT REVOLVING FUND

7.13 Typically, in any effective system of management controls there is a segregation of duties between custody of assets and reporting of the movements of those assets. However, in the Department's situation, the

managers of each of the four farms have the responsibility of both custody of livestock and reporting of livestock movement. The absence of a segregation of duties creates the possibility, for the person given the incompatible duties, to both perpetrate and conceal a theft of the livestock.

7.14 In a farm environment, it may not be practical to segregate these two incompatible duties. In such instances, it is necessary to institute compensating management controls which are at least sufficient to detect and investigate any unusual shortages on a timely basis.

7.15 To this end, the Farm Co-ordinator and Assistant Farm Co-ordinator, who are based in Regina, review the Revolving Fund's interim financial statements, periodically travel to each farm, and receive and analyze monthly inventory movement reports from each farm manager.

7.16 However, my representatives were unable to verify the effectiveness of these management controls because the results of the periodic visits and analyses of inventory reports are seldom formally documented in writing.

7.17 This weakness is the result of an absence of appropriate control procedures rather than non-compliance with established procedures.

7.18 The possible consequence of this weakness is that livestock inventory may not be adequately safeguarded and may be lost or stolen and not be detected on a timely basis.

SASKATCHEWAN BEEF STABILIZATION BOARD

7.19 During the course of the examination of the accounts of the Board my representatives observed the following instances of non-compliance with authorities:

7.20 My representatives observed that the rules and procedures applied by the Board with regard to stabilization payments to be made pursuant to the Cow Calf to Finish Market Insurance Plan Regulations were inconsistent as the rules and procedures applied by the Board allowed a producer to exceed his contract.

7.21 The Board has established a policy called the "Borrow Ahead" option. This option is sometimes given to producers although it is not provided for in the regulations. It allows a producer who has fulfilled his current contractual obligations, but who has his next fiscal year's animal production ready to slaughter, to receive stabilization payments for those animals in this fiscal year rather than next. Typically, these are cases where a producer would normally slaughter his animals in April or May every year but, in 1987, animals were ready for slaughter in March. The Board allowed him to slaughter in March, even though he had slaughtered his "quota" earlier in the fiscal year (April or May, 1986). Such producers thus received double stablization payments in one fiscal year which payments do not appear to have adequate authority.

7.22 This matter was reported in my 1986 annual report.

7.23 The examination also disclosed that expenditures had been made for which there was no authority due to the Board exceeding borrowing limits as set out under The Agricultural Returns Stabilization Act.

7.24 Section 9 of The Agricultural Returns Stabilization Act established the conditions upon which the Minister of Finance can lend to the Saskatchewan Agricultural Returns Stabilization Fund which is administered by the Board.

7.25 The Lieutenant Governor in Council by O/C 1050/85 established the borrowing limit for loans to the Saskatchewan Agricultural Returns Stablization Fund at $50,000,000.

7.26 As at March 31, 1987, the Board had borrowed $50,042,198.

SASKATCHEWAN SHEEP AND WOOL MARKETING COMMISSION

7.27 Marketing Order 11/78, issued by the Saskatchewan Sheep and Wool Marketing Commission, pursuant to the provisions of the Saskatchewan Sheep and Wool Marketing Plan and The Natural Products Marketing Act, requires that a buying charge of twenty-five cents per head be charged on feeder lambs purchased from Saskatchewan producers by out-of-province producers or dealers and that a buying charge of one dollar per head be placed on breeding animals purchased from Saskatchewan producers by out-of-province producers or dealers. The Commission, however, does not have a system to ensure compliance with Marketing Order 11/78, and thereby is unable to collect buying charges on feeder lambs and breeding animals purchased by out-of-province producers or dealers.

7.28 Marketing Order 23/84, issued by the Saskatchewan Sheep and Wool Marketing Commission, pursuant to the provisions of the Saskatchewan Sheep and Wool Marketing Plan and the The Natural Products Marketing Act, requires every livestock dealer, processor and sheep association to be liable for the accounting for, collection of, and remittance of sheep and lamb check-off fees to the Commission. The Commission, however, does not have a system to ensure compliance with Marketing Order 23/84, and therefore cannot ensure that check-off fees are collected by all livestock dealers, processors and sheep associations and that all check-off fees collected are subsequently remitted to the Commission.

7.29 This matter was reported in previous annual reports. The Standing Committee on Public Accounts considered this matter during a public hearing on March 15, 1985 when an official from the Commission appeared before the Committee as a witness.

7.30 The Committee recommended no further action at that time.

SASKATCHEWAN VEGETABLE MARKETING COMMISSION

7.31 Inherent in an appropriate system of management controls is the delegation of authority from the Board to senior management as well as procedures to ensure that all transactions comply with the delegation.

7.32 In a small organization where one person initiates and approves all transactions, it is critical that there is adequate supervision of senior management by the Board.

7.33 My representatives observed that the Chairman of the Board has the authority to initiate and approve all transactions. Cheques are required to be countersigned by a part-time consultant.

7.34 It was also observed that there was no documented evidence, such as minutes of the Board of the Commission, that the Board had appropriately supervised senior management. In this case senior management is the Chairman of the Board.

7.35 Accordingly, it is my opinion, that the rules and procedures applied were not sufficient to safeguard and control this public money.

Non-Compliance With Authorities

7.36 Subsection 15(1) of the Saskatchewan Vegetable Plan, established by Order-in-Council 138/78 states:

> *"The Commission shall maintain such books and records as may be required for the proper administration of this plan..."*

7.37 My representatives observed that the books had not been posted at any time in the year, nor were any financial statements prepared by the Commission.

7.38 Section 15(3) of the above mentioned plan states:

> *"The Commission shall prepare an annual report, which shall be submitted to the Council and to the Minister, in respect of activities of the Commission; and that annual report shall contain a copy of the audited financial statements of the Commission for the previous fiscal year as well as the names and addresses of the commissioners."*

7.39 In addition, Treasury Board requires that the financial statements of this Commission be included in the Public Accounts.

7.40 My representatives were informed by the officials of the Commission that no annual report has been prepared. In addition, no financial statements have been prepared for inclusion in the Public Accounts.

8

DEPARTMENT OF CULTURE AND RECREATION

8.00 During the course of the examination my representatives observed the following transactions that were not in compliance with proper authority.

8.01 Subsection 23(4) of The Culture and Recreation Grant Regulations states that the maximum amount of a grant under this section is $16,000 per fiscal year. In 1986/87, six payments relating to the final instalment on grants approved in the 1985/86 fiscal year were made in amounts that caused the total of these grants to be $17,000 each. In addition, three other grants for $17,000 each were approved and paid during the 1986/87 fiscal year, bringing the total to nine grants that were $1,000 over the maximum. Accordingly, I report that a total of $9,000 relating to these grants was expended without proper authority.

DEPARTMENT OF ECONOMIC DEVELOPMENT AND TRADE

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9

DEPARTMENT OF ECONOMIC DEVELOPMENT AND TRADE

9.00 Each government agency has a responsibility to ensure that its expenditures are properly authorized by management in accordance with relevant legislation and that they are accurately and completely recorded in its accounts. In order to adequately discharge this responsibility, each agency must have in place a system of management controls sufficient to satisfy management that the above responsibilities are adequately discharged.

9.01 Such a system would include written communication of policy and delegation of authority from senior management to employees together with a system of controls to ensure that all transactions comply with the policies and delegation of authority.

9.02 During the 1986/87 fiscal year, the Department of Economic Development and Trade (EDT) processed its own payment vouchers (excluding payroll) and deposits into the central Revenue and Expenditure System (R.E.S. System), and prepared its own journal vouchers for data entry by the Department of Revenue and Financial Services. Additionally, the Departments of Supply and Services and Revenue and Financial Services provided payroll services to the Department of Economic Development and Trade.

9.03 The Department did not have a written communication of policy and delegation of authority from senior management to employees together with a system of controls to establish the accuracy, authorization and completeness of the payroll and other expenditures charged against their appropriations.

9.04 Under these circumstances, some branch officials of Economic Development and Trade reviewed and evidenced their review of the periodic financial reports produced by the Central R.E.S. system to establish the accuracy, authorization and completeness of charges against their appropriation. However, the requirements of such review procedures were neither well documented nor sufficiently monitored centrally to ensure consistent and properly evidenced compliance by all the branch officials.

9.05 The absence of documented procedures and evidence of monitoring increases the risk that employees may not carry out the appropriate review to effectively control the Department's appropriations with the result that the risk is increased that commitments may be incurred in excess of that allowed by statute or officials may fail to detect on a timely basis, incorrect, incomplete or unauthorized charges made against the Department's appropriation.

HONG KONG TRADE OFFICE

9.06 In addition to the foregoing deficiency in the management control systems, my representatives observed a payment for "tenant fitting out work" for the Hong Kong Trade office totalling approximately $12,386.

9.07 Subsection 12(4) of The Economic Development and Trade Act states, in part:

> *"The approval of the Lieutenant Governor in Council is to be obtained for any acquisition or disposition of property .... where the value of the property exceeds $5,000."*

9.08 Although the above mentioned payment exceeded the stipulated amount of $5,000, an appropriate Order-in-Council was not obtained authorizing this payment. In my opinion, this expenditure totalling $12,386, was an expenditure for which there was no authority.

DEPARTMENT OF EDUCATION

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10

DEPARTMENT OF EDUCATION

NON-COMPLIANCE WITH AUTHORITY

10.00 During the course of the examination my representatives noted the following payment that was not in compliance with proper authority:

10.01 The Northern Lights School Division is entitled to receive a grant known as the Northern Student Differential grant. Clause 61(n) of the Regulations under The Education Act provides the following formula to determine such a grant:

> *"for each northern school division the product of:*
>
> *i) an amount specified in Table 12 as the northern differential*
>
> *ii) the number of recognized full time equivalent pupils; and*
>
> *iii) the appropriate northern factor for school division."*

10.02 Clause 60(1)(g) of the said Regulations defines full time equivalent pupils as follows:

> *"g) "Full time equivalent pupils" means with respect to a program of study, the number of pupils equal to the product of:*
>
> *i) the number of pupils enrolled in the program; and*
>
> *ii) the percentage of instructional time devoted to instruction in the program to a maximum of:*
>
> *(A) 75% of the instructional time available in a school week in the case of pupils enrolled in kindergarten to year 6 in a language program or kindergarten to year 12 in any other program; or*
>
> *(B) 60% of the instructional time available in a school week in the case of pupils enrolled in year 7 to year 12."*

10.03 The Department did not apply the maximum stipulated in clause 60(1)(g) of the Regulations and accordingly, overpaid the Northern Differential grant to the Northern Lights School Division in the amount of $318,484. Department officials informed my representatives that the Regulations are to be amended in 1987/88 to allow the Department to pay such grants in the future without applying the maximum as was required under clause 60(1)(g) of the Regulation cited above.

THE TEACHERS' SUPERANNUATION COMMISSION

10.04 The Teachers' Superannuation Commission administers The Teachers' Superannuation Act. The Teachers' Superannuation Act created a number of special purpose funds for the administration of the Teachers' Superannuation Plans.

10.05 During the course of the examination of the accounts of the Teachers' Superannuation Commission my representatives made a number of observations regarding the authority for certain actions of the Commission.

10.06 Clause 18(1)(a) of The Teachers' Superannuation Act requires the Minister of Finance to make certain payments to the Teachers' Superannuation Fund. In particular, subclause 18(1)(a)(i) states:

> *"The Minister of Finance shall cause to be paid into the Teachers' Superannuation Fund sufficient money, as may be required from time to time, to make it possible at all times to pay the allowances granted under this Act or a former Act;...."*

10.07 At present, the Commission prepares an annual estimate of the cash flow deficiency resulting from the excess of allowances to be paid over the sum of:

i) teachers' accumulated contributions including interest credited and matching Minister of Finance contributions in respect of teachers who will superannuate during the year, and

ii) the excess of investment earning receipts over amounts required to be credited to teachers' accounts for purposes of calculating the minimum fund balance as described in subsection 14(1) of the Act.

10.08 Additional payments during the fiscal year are paid to the Fund under the provisions of subclause 18(1)(a)(i) based on this calculation, although this amount may be reduced at year end as a result of the reallocation of any shortfall in matching contributions arising from differences between estimated and actual matching amounts. The accumulated amount of monies in excess of the minimum fund balance that is required to be maintained pursuant to subsection 14(1), on behalf of teachers who have not retired, is not taken into account in the calculation of the additional amount to be paid by the Minister of Finance. Legal advice provided to the Commission has indicated that subclause 18(1)(a)(i) is sufficiently unclear that it should be amended so as to clearly reflect the intentions of the Legislature. Accordingly, it is recommended that the Act be amended to clarify what amounts the Legislature intends are required to be paid under subclause 18(1)(a)(i).

10.09 In addition, the Commission is required by The Teachers' Superannuation Act to underwrite annuities payable to teachers eligible to receive such allowances from the Annuity Fund. Due to uncertainties related to future trends and events such as investment earnings and annuitant

mortality rates, it is possible for this type of operation to incur losses. Although the Act stipulates that annuity payments are to be made from the Fund, clause 18(1)(b) of the Act, governing payments by the Minister of Finance to the Fund, does not presently provide a means for any possible future deficits to be funded. Consideration should be given to having the Act amended to permit the Fund to receive monies for this purpose.

10.10 I reported these matters to the Minister of Education in memoranda of May 20, 1986 and March 30, 1987.

10.11 The Minister of Education responded that the government recognized the problem and that the government was constrained in its action by subsection 232(1)(a)(iii) of The Education Act which requires that any amendments to The Teachers' Superannuation Act must be the result of the collective bargaining process.

10.12 The Minister also informed me that my concerns were identified to the government caucus of the government-trustee provincial bargaining team for consideration for future collective bargaining and that negotiations were in progress.

10.13 These matters were also reported in my 1986 annual report.

DEPARTMENT OF ENERGY AND MINES

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11

DEPARTMENT OF ENERGY AND MINES

11.00 A study and evaluation of the management control systems for the administration of the Department disclosed the following conditions, which, in my opinion, resulted in more than a relatively low risk that errors or fraud in significant amounts may occur and not be detected in a timely period.

Petroleum and Natural Gas Royalty and Tax Assessments

11.01 Essential to an appropriate system of management controls are rules and procedures that ensure that there is an effective check on the assessment of revenue.

11.02 In computer systems where one computer file is used to generate another computer file it is essential that there are balancing procedures to ensure that the common information contained in the computer files is in balance in order to ensure completeness.

11.03 During the course of the examination my representatives noted that there were insufficient balancing controls where one computer file was used to generate other computer files. These files are used to generate billings for petroleum and natural gas royalty and tax assessments.

11.04 In addition, where balancing reports highlighted instances in which balancing problems did exist between computer files, there was an absence of documented evidence that management had reviewed and appropriately corrected any balancing problems.

11.05 In addition, my representatives noted that there were inadequate controls in certain cases to ensure that only the employees responsible had the ability to enter information into computer files.

11.06 My representatives also observed that the documents used by the Department to adjust computer generated assessments of petroleum and natural gas royalties and taxes are not reviewed or approved by senior officials of the Department to ensure that all adjustments to computer generated assessments of petroleum and natural gas royalties and taxes are accurate and bonafide.

11.07 In view of the conditions described above, in my opinion, the rules and procedures applied are not sufficient to secure an effective check on the assessment of pretoleum and natural gas royalty and tax assessments with the result that there could be a loss of revenue to the Crown.

Drilling Deposits

11.08 Also essential to an appropriate system of management controls is a system which provides for physical control and accountability over negotiable assets to ensure that they are adequately protected against loss, fire and theft. Methods for achieving these controls normally include restriction of access to assets, accountability over assets while in custody, adequate segregation of the custodial function from operational and accounting functions, specific assignment of custodial responsibilities, satisfactory physical protection of the assets and adequate insurance coverage.

11.09 Oil and gas companies interested in drilling for oil or gas in Saskatchewan are required to maintain drilling deposits with the Department. These deposits can either be in the form of cash or bonds. Drilling deposits maintained in bonds are generally bearer bonds. One employee is responsible for performing the following incompatible functions:

a) receiving bonds deposited with the Department and depositing them at the Department of Finance Vault;

b) issuing receipts for these bonds;

c) maintaining the bonds subsidiary ledger and control account and reconciling them to each other;

d) clipping interest coupons and forwarding them to oil and gas companies;

e) performing semi-annual bond counts and reconciling count results to the bonds subsidiary ledger;

f) in rare situations, cashing bonds when these deposits have to be forfeited; and

g) returning bonds to oil and gas companies upon authorization of release from the Petroleum and Natural Gas Branch of the Department.

11.10 In addition, the Petroleum and Natural Gas Branch, which has the responsibility for ensuring that oil and gas companies maintain with the Department the required drilling deposits, and for authorizing the release of these deposits, maintains a well deposit ledger. However, no reconciliation is performed between the well deposit ledger and the bonds subsidiary ledger.

11.11 The above conditions allow the possibility of misappropriation of bonds held in trust by the Department with a consequential loss to the Crown.

Non-Compliance With Authority

11.12 In addition to the foregoing management control deficiencies my representatives observed the following transactions that did not comply with authorities:

11.13 Part IV of The Oil and Gas Conservation, Stabilization and Development Act, 1973, acquired for the Crown the oil and gas rights of all mineral owners with producing tracts aggregating more than 1,280 acres. This entitled the Crown to receive all royalties specified in lease agreements with the former mineral rights owners and to issue Crown leases in situations where the mineral right owners were also the producers. In return the legislation provided compensation to the mineral rights owners based upon December 10, 1973 prices.

11.14 The above legislative provisions (now covered by identical provisions under Section 23 of The Crown Minerals Act) were fully implemented regarding oil mineral rights but the Department did not implement the royalty and compensation provision for gas rights. This, in my opinion, constitutes legislative non-compliance and results in lost revenues to the Crown.

11.15 The Department has estimated that the royalty loss from 1974 to 1983 would be negligible but after 1983 it is estimated that the loss of revenue would be approximately $400,000 per year.

11.16 This matter was also reported in my 1986 annual report.

11.17 Section 63B of The Petroleum and Natural Gas Regulations, 1969 and section 209 of The Freehold Oil and Gas Production Tax Regulations, 1973 were amended in August, 1985 to provide for a royalty/tax levy on production of "excess oil" during a well's royalty/tax incentive period. The levy was applicable to excess oil production subsequent to those amendments coming into force in August, 1985.

11.18 During the course of the audit, my representatives noted where these provisions were being applied retroactively to the commencement of the incentive period. As the regulations did not provide for retroactive assessment, in my opinion the levies that the Department assessed and collected retroactively were collected without any legislative authority.

DEPARTMENT OF FINANCE

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12

DEPARTMENT OF FINANCE

PUBLIC ACCOUNTS

12.00 In my 1986 annual report I reported that the financial statements for the Consolidated Fund for the year ended March 31, 1986 were not completed and provided to me for audit by March 31, 1987, a full year after the fiscal year end.

12.01 As a result I was unable to provide in my 1986 annual report to the Legislative Assembly reservations of opinion in all audit reports for that fiscal year.

12.02 Accordingly, I include in this report the reservation of opinion on the Consolidated Fund financial statements for the year ended March 31, 1986.

12.03 The report reads as follows:

> *"I have examined the statement of financial position of the Consolidated Fund as at March 31, 1986 and the statements of Province's net debt, revenue and expenditure, loan, investment and deposit activity and financing and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.*
>
> *Note 1f describes the valuation policy for loans to crown entities. The note states that the loans will be written down where the liabilities of a crown entity significantly exceed the estimated realizable value of its assets and the accumulated deficit is not funded by an appropriation. Note 2j discloses that the Consolidated Fund has loans either directly or indirectly via the Crown Investments Corporation of Saskatchewan to four crown corporations with accumulated deficits totalling $81,240,000. The accumulated deficits of three of these corporations totalling $45,250,000 (Saskatchewan Forest Products Corporation - $21,510,000; Saskatchewan Transportation Company - $7,490,000; Saskatchewan Economic Development Corporation - $16,250,000) are, in my opinion, other than temporary and represent appropriate evidence that the liabilities of these crown corporations significantly exceed the estimated realizable value of their assets. Further, the Consolidated Fund has loans to the Agricultural Credit Corporation of Saskatchewan in the amount of $1,215,488,000. This crown corporation at March 31, 1986, has an accumulated deficit of $90,300,000. The deficit was caused by an allowance for loan losses with respect to the corporation's production loans and livestock cash advances. Note 2j discloses that the loan losses will be funded by an appropriation in 1986-87. In my opinion, this accumulated deficit represents appropriate*

evidence that the liabilities of this crown corporation significantly exceed the estimated realizable value of its assets. Since these deficits were not funded by an appropriation prior to March 31, 1986, the aforementioned accounting policy requires that the loans be written down to recognize the loss. If the loans had been written down, the loans to crown entities would have been reduced by $135,550,000 and the Province's net debt increased by $135,550,000.

In my opinion, except that no write-down has been made for the loss in value of the loans to crown entities as described in the preceding paragraph, these financial statements present fairly the financial position of the Consolidated Fund as at March 31, 1986 and the results of its operations and the changes in its financial position for the year ended in accordance with the accounting principles disclosed in Note 1 to the financial statements applied on a basis consistent with that of the preceding year."

12.04 Briefly, the audit report is advising the reader of the financial statements that the deficits in the crown corporations set out in paragraph two of my auditor's report have not been recorded in the 1986 financial statements as required by the accounting policies.

12.05 The government has taken the position that they wish the losses to be recorded in the 1987 fiscal year.

12.06 Also, my auditor's report on the financial statements which combine the Consolidated Fund and the Saskatchewan Heritage Fund contains the same reservation of opinion.

12.07 I also report that my auditor's report on the 1987 Consolidated Fund financial statements contains two reservations of opinion.

12.08 The auditor's report reads as follows:

"I have examined the statement of financial position of the Consolidated Fund as at March 31 1987 and the statements of Province's net debt, revenue and expenditure, loan, investment and deposit activity and financing and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

Short-term loans to crown entities include disbursements to Saskatchewan Property Management Corporation of $181,993,000. It is inappropriate to include these disbursements as assets of the Consolidated Fund since their repayment depends upon future appropriations from the Consolidated Fund. Accordingly, these disbursements should be recorded as expenditures. If these disbursements had been recognized as expenditures the short-term loans to crown entities would have been reduced by $181,993,000 and excess of expenditure over revenue and Province's net debt would have been increased by $181,993,000.

My auditor's report for the year ending March 31, 1986 contained a reservation that stated since the deficits of crown entities in the amount of $135,550,000 were not funded by appropriations prior to March 31, 1986, the accounting policies required that the loans to the crown entities be written down in that year to recognize the loss. The financial statements disclose that the write-down of the loans to crown entities was recorded in the year ended March 31, 1987 rather than in the year ended March 31, 1986 when the write-down was required. If the write-down of the loans had been recognized in the proper accounting period, the loans to crown entities would have been reduced by $135,550,000 and the Province's net debt increased by $135,550,000 as at March 31, 1986. Further, the Province's net debt as at April 1, 1986 would have been increased by $135,550,000 and the write-down of loans to crown entities for the year ended March 31 1987 would be reduced by $135,550,000.

In my opinion, except for the failure to record disbursements as expenditures as previously described and except for the effects of the failure to record the write-down of loans to crown entities in the proper accounting period as described in the preceding paragraph, these financial statements present fairly the financial position of the Consolidated Fund as at March 31, 1987 and the results of its operations and the changes in its financial position for the year then ended in accordance with the accounting principles disclosed in note 1 to the financial statements applied on a basis consistent with that of the preceding year."

12.09 Briefly, the first reservation in the auditor's report is advising the reader of the financial statements that the funds required by SPMC to repay the loan to the Consolidated Fund must be paid from the Consolidated Fund to SPMC and, therefore, there is no financial asset.

12.10 If it is argued that this loan is, in part, an attempt to record the acquired physical assets transferred to SPMC, it is my opinion that in order to record this asset it would be necessary to change the accounting policy for the Consolidated Fund from that of reporting acquired physical assets at $1.00 to that of reporting acquired physical assets at depreciated historical cost.

12.11 I am of the view that it would be desirable to report acquired physical assets and to reflect the full cost of government programs.

12.12 The second reservation of opinion is related to the reservation of opinion on the 1986 Consolidated Fund financial statements as described in paragraphs 12.04 and 12.05 of this chapter. The report is advising the reader of the financial statements that the deficits in certain crown corporations have been recorded as losses in 1987 rather than in 1986 as required by the accounting policies.

12.13 My auditor's report on the 1987 financial statements which combine the operations of the Consolidated Fund and the Saskatchewan Heritage Fund contains the same reservations of opinion.

MANAGEMENT CONTROL DEFICIENCY

12.14 Important elements in any system of internal control are the administrative and procedural controls established by management over the expenditures to be made by the organization. It is the responsibility of management on entering into contractual obligations to ensure that the interests of the organization are well protected within the terms of any contracts signed by management, particularly in contracts which require payment in advance of the receipt of goods or services.

12.15 For government departments, direction is provided in the Accounting and Reporting Policy Manual and the Financial Administration Manual. Section 552-1 of the Financial Administration Manual sets out the minimum terms to be included when a formal contract is drafted. These minimum terms include:

> *"(iii) A detailed description of the services.*
>
> *(iv) A detailed description of the goods.*
>
> *(v) The time period within which the goods and services are provided.*
>
> *(vi) The price for the goods and services.*
>
> *(vii) The terms of payment (i.e. progress payments completion of certain phases, after completion, upon acceptance of a report, etc.)"*

12.16 Further terms which would be required in order to safeguard public money would include terms to protect the department in the event that the goods or services are not received, or where there is a delay in obtaining the goods or services, or in the event that the goods or services received were not up to the standard which the department required.

12.17 During the month of March, 1987, the Department of Finance entered into two contracts with the Saskatchewan Property Management Corporation (SPMC) to acquire "Automated Systems Functionality and Related Consulting Services" and "Consulting Services in the area of insurance for government assets". The Department made advance payments of $200,000 and $12,000 respectively to SPMC regarding these contracts.

12.18 An examination of the contracts for the acquisition of "Automated Systems Functionality and Related Consulting Services" and "Consulting Services in the area of insurance for government assets" indicated that the contract terms did not provide:

a) a detailed description of the goods and services that were to be provided;

b) a time period within which the goods and services were to be provided;

c) the price for the goods and services to be provided;

d) sufficient detail on the terms of payment for the services and goods to be provided;

e) terms to recover the advance payment in the event that goods and services were not provided, or in the case of delays in providing these goods and services or in the event that the goods and services received were not up to the standard which the department required.

12.19 In my opinion, the manner of execution of these contracts indicates an absence of sufficient management controls over contractual obligations to ensure compliance with directives of Treasury Board which are designed to safeguard public money. In addition, because the terms of these contracts did not meet the minimum requirements of the Financial Administration Manual, the payments of $200,000 and $12,000 were not properly vouchered and certified.

SASKPEN PROPERTIES LTD.

12.20 SaskPen Properties Ltd. (SaskPen) is a crown agency established under The Business Corporations Act for the purpose of acquiring interests in real property and leaseholds out of funds provided by a number of crown administered pension funds.

Financial Reporting

12.21 When the government forms or acquires a company using public money, the government assumes a commensurate level of accountability to the public for the operation of that company.

12.22 The fact that SaskPen is public money means that the government must accept and fulfill certain obligations necessary to protect the public interest.

12.23 In order for the Legislative Assembly to have sufficient information to hold the executive government accountable for the administration of public money, there is a fundamental obligation on the executive government to provide timely, full and fair public disclosure regarding its administration of public money.

12.24 While the financial statements for the year ended December 31, 1983 were provided to the Standing Committee on Public Accounts, no financial statements for SaskPen have been tabled in the Legislative Assembly. As a result of this, the government is not fully accountable to the Members of the Legislative Assembly for its administration of this company.

12.25 This matter was reported in past years and was considered by the Standing Committee on Public Accounts.

12.26 The Committee in its report of November 3, 1987, which was concurred in by the Legislative Assembly, recommended:

> *"That the Committee recommend that the government consider preparing legislation to ensure that the duly audited financial statements for Crown agencies established pursuant to The Business Corporation Act are tabled in the Legislative Assembly, providing that the competitive position of the Crown Corporation is not prejudiced."*

Budgetary Controls

12.27 A study and evaluation of the management control systems disclosed the following conditions which resulted in more than a relatively low risk that errors or fraud in amounts that would be material may occur and not be detected in a timely period.

12.28 Essential in an appropriate system of management controls are control procedures which permit management to review, analyze and control the operations of the organization as well as procedures for the Board of Directors to monitor the performance of the management. Key elements of such a system are budgets and an effective interim financial reporting system so that management and the Board of Directors have financial information to assess performance and adjust operations as necessary to meet targets established in the budget.

12.29 During the course of the audit it was observed that no budget process was in place. Further, there was no documentation of the review of the monthly financial statements by the Board as there were no Board minutes.

12.30 Without minutes of the Board of Directors significant decisions of the Board are not documented and, therefore, it is not possible to ascertain whether or not the transactions entered into by management are in compliance with the authority delegated to management by the Board.

12.31 Also, without budgets and an effective interim financial reporting system the Board of Directors does not have sufficient information to assess management's performance and adjust operations as necessary.

Non-Compliance With Agreements

12.32 SaskPen has entered into agreements with the co-owners of the real estate and leaseholds owned by SaskPen.

12.33 Section 6.5 of the Co-ownership Agreement dated June 7, 1983 states the co-owners shall, in each calendar year, have the properties appraised by an appraiser who shall be a disinterested person, have not less than five years with the Appraisal Institute of Canada and be fully acquainted with similar properties.

12.34 For the year ended December 31, 1986 this provision has not been complied with and, in my opinion, this constitutes non-compliance with this contractual agreement. Such information may be essential to the pension plan shareholders in assessing the overall performance and the inherent risk of their real estate investments.

12.35 In addition, this information may be required to determine whether or not the Corporation will have to recognize a loss in the value of the two properties it is holding for future development. At present, the current market values of these properties appear to have dropped significantly below the Corporation's carrying costs and there continues to be no formal plan to proceed with development of these properties.

SPECIAL WARRANTS

12.36 The money necessary to operate the government is provided annually through Appropriation Acts. This money is provided after estimates are debated and voted by the Legislative Assembly.

12.37 The Legislature, by The Department of Finance Act, 1983, allows the government to spend money without an Appropriation Act by means of a special warrant. However, the Legislature has restricted this form of spending to expenditures not foreseen or provided for or insufficiently provided for, when the Legislative Assembly is not in session. The government is required to include special warrants as part of the next ensuing Appropriation Act.

12.38 As a further control over special warrants, the Provincial Auditor is required to report to the Legislative Assembly any special warrant which authorized the payment of public money.

12.39 I report that no expenditure was made under the authority of a special warrant in the 1987 fiscal year which was not included in the next ensuing Appropriation Act.

DEPARTMENT OF HEALTH

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DEPARTMENT OF HEALTH

PARKLAND REGIONAL CARE CENTRE

13.00 An important element in a system of management controls are procedures to safeguard the assets of an organization. In order to safeguard and control the assets of an organization it is necessary to have a record of the assets for which an organization is responsible and a periodic physical inspection of these assets.

13.01 The Centre maintains a detailed capital equipment listing as an aid to safeguard the Centre's investment in furniture, fixtures and equipment.

13.02 During the examination, it was observed that the Centre has not established procedures for a periodic physical count of capital equipment (such a count could be done on a cyclical basis by asset type or location) which would ensure the integrity of the capital equipment listing.

13.03 This lack of control procedures allows the possibility that the Centre's recorded investment in furniture, fixtures and equipment may not be supported by physical assets.

SASKATCHEWAN ALCOHOLISM AND DRUG ABUSE COMMISSION

13.04 In keeping with the concept that a Crown agency should not collect money other than that which is sanctioned by law, I report as follows:

13.05 Subsection 8(2)(f) of The Alcohol and Drug Abuse Commission Act reads:

> *"In furtherance of its aims and objectives, the commission may:...*
>
> *(f) with the approval of the Lieutenant Governor in Council, establish a schedule of fees that may be charged by the commission for services provided by the commission pursuant to this Act."*

13.06 During the year under review, the Commission collected a total of $3,150 for treating out of province patients at $70 per day and $44,503 for seminar and conference fees. However, the Commission had not received the approval of the Lieutenant Governor in Council as required by the aforementioned subsection.

13.07 Therefore, the total sum of $47,203 has been collected without appropriate authority.

SASKATCHEWAN HEALTH RESEARCH BOARD

13.08 In 1980/81 and 1981/82, the Legislature appropriated a total of $600,000 for low-level radiation research grants. Under a letter of agreement between the Minister of Health and the Saskatchewan Health Research Board dated May 28, 1980, which was approved by Treasury Board, these funds were paid to the Board to be administered by it for radiation research purposes. By letter dated May 2, 1986, the Minister of Health directed the Board to begin drawing on its Radiation Fund to partially support general health research and administrative overhead expenditures. In response to the direction received from the Minister, on January 22, 1987, the Board approved the termination of the Radiation Fund and the transfer of the remaining fund balance to the General Fund.

13.09 In my opinion, the application of monies appropriated for low-level radiation research to general research and administrative overhead constitutes an application of an appropriation to a purpose not authorized by the Legislature. In addition, due to the existence of the letter of agreement approved by Treasury Board, it would appear that, without corresponding approval as to its amendment or cancellation, the Board did not have the necessary authority to terminate the Radiation Fund and transfer the fund balance to the General Fund.

SASKATCHEWAN MEDICAL CARE INSURANCE COMMISSION

13.10 During the course of the audit of the Commission my representatives observed the following matters relating to non-compliance with authorities:

13.11 Under Section 48 of The Saskatchewan Medical Care Insurance Act the Commission may make regulations prescribing the rates of payment to be made under this Act in respect of insured services provided to beneficiaries by physicians and other persons providing services. Sections 13 and 15 of The Medical Care Insurance Commission Payment Regulations states the Commission shall make payments for insured services at any rates that may be agreed upon between the Commission and the College of Dental Surgeons of Saskatchewan and the Chiropractor's Association of Saskatchewan respectively.

13.12 During the audit it was observed that the Commission did not ratify the rate changes used to make payments to members of these two associations during the 1986/87 fiscal year which took effect at various dates, including some retroactive rate changes that were effective January 1, 1986. As a result, all payments made at rates in excess of the rates approved by the Commission represent expenditures which were not properly authorized.

13.13 Section 41 of The Department of Finance Act, 1983 states:

> *"Notwithstanding the provisions of any other Act, no department, board, commission or agent of the Government of Saskatchewan and no Crown Corporation shall borrow any moneys without the approval of the minister."*

13.14 It was noted that the Commission's bank accounts were overdrawn on several occasions during the year. Since the Commission does not have any evidence of approval by the Minister of Finance, such overdrafts represent unauthorized borrowings.

SASKATCHEWAN PRESCRIPTION DRUG FUND

13.15 Officials of the Department of Health administer the Saskatchewan Prescription Drug Fund.

13.16 A claims bank account is used for the purposes of operating the Fund.

13.17 My representatives observed that the bank account was, on a number of occasions, overdrawn. The largest overdraft noted was approximately $1.2 million on July 31, 1986.

13.18 Section 41 of The Department of Finance Act, 1983 states:

> *"Notwithstanding the provisions of any other Act, no department, board, commission or agent of the Government of Saskatchewan and no Crown corporation shall borrow any moneys without the approval of the minister."*

13.19 No evidence of authorization of this debt was provided by management.

13.20 My representatives noted that the frequency of the claims bank account being overdrawn was significantly reduced after the commencement of new banking arrangements in December, 1986. Only one overdraft was noted from December, 1986 to March 31, 1987.

SOURIS VALLEY REGIONAL CARE CENTRE

13.21 Subsections 35.7(1) and (2) of The Housing and Special-care Homes Act state as follows:

> *"(1) A board shall, in each fiscal year, in accordance with The Tabling of Documents Act, submit to the minister:*
>
> *a) a report of the board upon its business for the immediately preceding fiscal year; and*
>
> *b) a financial statement showing the business of the board for the immediately preceding year.*
>
> *(2) The minister shall, in accordance with The Tabling of Documents Act, lay before the Legislative Assembly each report and statement received by him pursuant to subsection (1)."*

13.22 Souris Valley Regional Care Centre submitted an annual report of the Board to the Minister based upon its business for the March 31, 1986 fiscal year which was tabled before the Legislative Assembly on June 18, 1987 in accordance with The Tabling of Documents Act; however, this annual report did not include the audited financial statements for the year ended March 31, 1986. These financial statements were submitted separately to the Minister but were not laid before the Legislative Assembly in accordance with The Tabling of Documents Act. Therefore, subsection 35.7(2) of The Housing and Special-care Homes Act was not complied with respecting the tabling of the audited financial statement for the Souris Valley Regional Care Centre for the year ended March 31, 1986.

13.23 It is noted that there was a delay in obtaining the required approval of Treasury Board for the format of the 1986 financial statements.

13.24 The following is a chronology of events regarding the approval of the financial statement format:

13.25 On October 16, 1986, management provided me with final financial statements for the Care Centre and requested that I submit the financial statements that they had prepared to Treasury Board for format approval.

13.26 On October 23, 1986, I forwarded the financial statements, together with my draft auditor's report on those financial statements, to Treasury Board.

13.27 On March 10, 1987, I was advised that Treasury Board had approved the format of the financial statements that were submitted.

13.28 On March 16, 1987, I released my report on the 1986 financial statements of the Care Centre.

WASCANA REHABILITATION CENTRE

13.29 Section 16 of The Wascana Rehabilitation Centre Act states as follows:

> *"(1) On or before the June 30 immediately following each fiscal year of the board, the board shall cause to be prepared a statement of the revenue and expenditures of the board for that fiscal year and a statement respecting the assets and liabilities of the board as of March 31 of that fiscal year.*
>
> *(2) The board shall send to the minister copies of the financial statement prepared pursuant to subsection (1) immediately on its preparation and in any number that the minister may require.*
>
> *(3) The minister shall, in accordance with The Tabling of Documents Act, lay before the Legislative Assembly each financial statement received by him from the board pursuant to subsection (2)."*

Department of Health

13.30 An annual report for the fiscal year ended March 31, 1986 was tabled in the Legislative Assembly on December 23, 1986 as Sessional Paper No. 22. However, this annual report contained unaudited financial statements which are materially incorrect. As of October 20, 1987, audited financial statements for the year ended March 31, 1986 had not been tabled in the Legislative Assembly.

DEPARTMENT OF HIGHWAYS AND TRANSPORTATION

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DEPARTMENT OF HIGHWAYS AND TRANSPORTATION

HIGHWAYS REVOLVING FUND

14.00 Officials of the Department of Highways and Transportation administer the Highways Revolving Fund.

14.01 The Revolving Fund is used to finance the cost of public improvement construction services and custom work.

14.02 A study and evaluation of the management control systems for the administration of the Revolving Fund disclosed the following conditions in the management control systems which, in my opinion, resulted in more than a relatively low risk that errors or fraud in amounts that would be material may occur and not be detected in a timely period.

Supervisory Controls

14.03 Essential to an appropriate system of management controls are controls which permit management to effectively discharge its responsibilities of reviewing, analyzing and controlling operations of an organization. A key element of such a system is an effective interim financial reporting and monitoring system.

14.04 In this regard, the Provincial Comptroller in section 1010 of the Financial Administration Manual identifies the need for financial statements to provide information on a timely basis to enable management to assess performance, and adjust operations as necessary, in order to meet targets established in the budget.

14.05 During the examination, my representatives observed that the general design of the accounting system was deficient as the system was incapable of producing interim financial statements on an appropriate basis of accounting.

14.06 The consequence of this weakness is that management is unable to effectively assess the performance of the Revolving Fund and adjust its operations in order to meet targets established in the budget, and further, management controls are unlikely to detect problems resulting from specific management control weaknesses such as those discussed later in this chapter.

14.07 Also, officials of the Department are unable to comply with the requirement to submit quarterly financial statements to Treasury Board for its review and analysis of the operations of the Revolving Fund.

Authorization Controls

14.08 Inherent in an appropriate system of management controls are written policies and procedures that delegate authority from senior management to appropriate employees and a control system that ensures that transactions are executed in accordance with the delegated authority.

14.09 The Department has established a Financial Administration Manual. The written policies and procedures contained therein, for the most part, provide for an appropriate system of management controls except as noted elsewhere in this chapter.

14.10 My representatives observed the following instances where officials of the Department failed to comply with established procedures:

14.11 The Department's Financial Administration Manual prescribes procedures for the approval of local purchases. It was observed that certain officials of the Department who were not authorized by departmental policy to approve local purchase orders had in fact approved such purchases.

14.12 This failure to follow prescribed procedures for purchasing goods and services for the operations of the Revolving Fund was also evident for goods and services acquired that were charged directly to departmental appropriations.

14.13 The failure to follow prescribed procedures also resulted in non-compliance with the Purchasing Agency guidelines issued under the authority of The Purchasing Act.

14.14 Current procedures for the Revolving Fund require district supervisors to approve the use of construction and maintenance equipment so that the appropriate rental fee can be charged to customers. This approval is required to be evidenced by the district supervisor approving a document called a "Usage Log".

14.15 My representatives observed that the "Usage Logs" were not always approved by district supervisors.

14.16 Failure to follow this prescribed procedure increases the risk of unauthorized use of equipment without detection.

14.17 Treasury Board requires that the recovery rates to be charged for goods and services provided by the Revolving Fund should be approved by Treasury Board and the Department's prescribed procedures require that charge-out rates for labour and equipment be approved by the Deputy Minister.

14.18 My representatives observed that the equipment rental rates charged had not been approved by Treasury Board. In addition, officials of the Department were not charging customers for the depreciation component of the rental rates for fully depreciated assets. The latter policy did not have the explicit approval of the Deputy Minister.

14.19 Failure to follow prescribed procedures has resulted in unauthorized charges for goods and services provided by the Revolving Fund and a loss of revenue to the Revolving Fund.

14.20 My representatives also observed the following condition where the rules and procedures prescribed by the Department's Financial Administration Manual were inconsistent with the cost recovery process that was contained in the Department's budget submission that was approved by Treasury Board.

14.21 The Department's Financial Administration Manual provides district engineers with the authority to enter into flat rate contracts for custom work and bridge construction but this practice was not identified in the budget submission approved by Treasury Board.

Inadequate Segregation of Duties

14.22 In addition to the foregoing cases where officials failed to follow prescribed procedures, my representatives noted the following conditions where there was an absence of control procedures.

14.23 There was an inadequate segregation of duties involving storekeepers, who initiated and approved local purchase orders, received goods, received supplier invoices and also maintained the records of supplies on hand.

14.24 This absence of control procedures increases the risk of unauthorized purchases and misappropriation of assets without ready detection.

Loss of Revenue

14.25 On October 6, 1986, officials of the Department entered into an agreement with a third party customer to replace a bridge at an estimated cost of $75,000. The specified method of payment for this work was the actual cost incurred to replace the bridge.

14.26 The actual cost of the work was $145,615.95 which was invoiced in January, 1987. The customer refused to pay the cost overrun on the grounds that the customer was not informed of the cost overrun until after the completion of the contract. However, after further negotiations, the customer agreed to pay and did pay $99,000 in May, 1987. As a result, the Crown suffered a loss of $46,615.95. This amount was absorbed by the appropriation through a billing rendered subsequent to the year end.

Departmental Appropriations

14.27 In addition to the foregoing deficiencies in the management control systems for the operation of the Revolving Fund, a study and evaluation of the management control systems for the administration of departmental appropriations disclosed the following condition, in addition to that set out in paragraph 14.12 of this chapter, in the management control systems which, in my opinion, resulted in more than a relatively low risk that material errors or fraud may occur and not be detected in a timely period.

14.28 Essential to an appropriate system of management controls are written policies and procedures that delegate authority from senior management to appropriate employees and a control system that ensures that transactions are executed in accordance with management's delegation.

14.29 The Department has established a Financial Administration Manual for this purpose.

14.30 One of the control features in the Department's Financial Administration Manual requires that before approval of contractual payments, the approving official must ensure that a valid contract (agreement) is in place for such transactions.

14.31 It was observed that Department officials failed to comply with established procedures for the approval of contractual payments.

14.32 The above condition could result in unauthorized payments being made without ready detection and payments not being properly vouchered or certified.

14.33 The following observations were made with regard to this control deficiency:

14.34 In March, 1987 the Department received invoices from the Department of Supply and Services totalling some $1.1 million purportedly for rental of certain computer equipment. The payments were not supported by a written lease agreement and my representatives were unable to determine either the rental period covered or whether these payments were made in full settlement of a lease obligation.

14.35 As a result, these expenditures were not properly vouchered or certified.

14.36 According to provisions of the Department's Financial Administration Manual, compensation paid to landowners for damages to their land during road construction is required to be supported by a written agreement, approved by the Deputy Minister. However, $10,412.67 was paid as compensation without the agreement being approved by the Deputy Minister or his designate.

14.37 As a result, this expenditure was not properly vouchered or certified.

DEPARTMENT OF JUSTICE

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15

DEPARTMENT OF JUSTICE

JUDGES OF THE PROVINCIAL COURT SUPERANNUATION FUND

15.00 The Public Employees Benefits Agency is responsible to administer the Judges of the Provincial Court Superannuation Fund.

15.01 Essential in an appropriate system of management controls are control procedures which permit management to review, analyze and control public money. Key elements of such a system are an effective interim financial reporting system to assess performance and adjust operations as necessary.

15.02 During the course of the audit it was observed that the accounting records were not being maintained on a timely basis with the result that there were significant delays in the preparation of monthly and annual financial information.

15.03 This management control deficiency also contributed to the following instance of non-compliance with authorities:

15.04 Subsections 29(3) and (4) of The Provincial Court Act states as follows:

> *"(3) The member of the Executive Council to whom the administration of this Act is assigned shall, in each fiscal year, in accordance with The Tabling of Documents Act, submit to the Lieutenant Governor in Council:*
>
> *(a) a report on the business of the fund for the immediately preceding fiscal year; and*
>
> *(b) a financial statement showing the business of the fund, in such form as may be required by the Treasury Board.*
>
> *(4) The member of the Executive Council to whom the administration of this Act is assigned shall, in accordance with The Tabling of Documents Act, lay before the Legislative Assembly each report and statement submitted by him under subsection (3)."*

15.05 The Tabling of Documents Act required the annual report and financial statements of the Judges of the Provincial Court Superannuation Fund for the year ended March 31, 1986 to be laid before the Legislative Assembly by June 18, 1987. Since the report was not tabled by this date, it is my opinion that subsections 29(3) and (4) of The Provincial Court Act were not complied with.

LOCAL REGISTRARS', LAND TITLES' AND SHERIFFS' OFFICES

15.06 An important element in any system of management controls is careful supervision by management. In larger organizations, no one manager can have direct personal knowledge of every facet of the organization. Supervisory responsibilities therefore are delegated throughout the organization. It is important, however, to retain the involvement of senior management at key spots within the management control system to detect breakdowns in the system. Where senior management is not able to personally exercise this control, for reasons such as decentralization in larger organizations, it is usual to have an internal audit function. This internal audit function reviews and tests the management control systems throughout the organization to ensure compliance with senior management's prescribed procedures and reports its findings to senior management for appropriate action.

15.07 A major portion of the revenue of the Department is collected through Land Titles', Local Registrars' and Sheriffs' offices. The revenue collected by these offices totalled approximately $16.2 million in the 1986/87 fiscal year.

15.08 During the course of the examination it was observed that management had not established a system to monitor compliance with its prescribed procedures for the collection, recording and deposit of moneys for services provided. This weakness allows the possibility of: (i) services being provided without collection of moneys due to the Department, (ii) errors occurring either in calculation of moneys due the Department or in the recording of moneys received, and (iii) the misappropriation of moneys received, without detection on a timely basis.

15.09 This matter was also reported in my 1986, 1985 and 1984 annual reports.

15.10 Officials of the Department of Justice appeared before the Standing Committee on Public Accounts on February 2, 1988 and were questioned about this matter.

15.11 The Standing Committee on Public Accounts has not as yet made a recommendation to the Legislative Assembly on this matter.

15.12 My representatives conducted additional audit procedures to discover whether the weakness in procedures had resulted in any cases of errors or fraud. The audit procedures were not designed to discover all cases of errors or fraud and, accordingly, the following reported errors should not be considered to represent all cases of errors or fraud but rather are presented to provide examples of the types of errors that were discovered:

15.13 Officials of the Department are responsible to maintain a record of the money paid into court and the disposition of that money.

15.14 My representatives observed the following deficiencies in records maintained for this trustee function.

15.15 The Queen's Bench Act in Section 46 provides as follows:

> *"Interest shall be payable in all cases in which it is now payable by law, or in which it has been usual for a jury to allow it."*

15.16 Part .03 (b)(v) of Section 750 of the Financial Administration Manual provides direction for the transfer into revenue of interest not otherwise required to be paid into court as provided in Section 46 of The Queen's Bench Act.

15.17 It was observed during the course of the examination at a Local Registrar's Office that the interest receipts of $216,161 retained in the trust accounts at September 30, 1986 were in excess of the requirements of The Queen's Bench Act and should have been transferred to the Consolidated Fund in accordance with Treasury Board Policy.

15.18 Officials of the Department collect fees at local land titles offices. These fees are to be transferred on a regular basis to the Consolidated Fund.

15.19 My representatives observed where $110,296 in fee revenue was not forwarded in accordance with prescribed policy for deposit to the Consolidated Fund.

DATA SECURITY

15.20 The Department utilizes the services of Saskatchewan Computer Utility Corporation (SaskComp) for data processing. The Department has the responsibility to ensure that the computer operating system and processing environment is administered in such a manner as to achieve proper integrity over the processing operations of the Department, and to maintain security over Department programs and data files in accordance with policies and standards laid down by the Department.

15.21 In order to discharge this responsibility, officials of the Department must demonstrate either that they have monitored performance of SaskComp for compliance with their policies and standards on a continuous basis, or alternatively, that SaskComp has provided to the Department on an ongoing basis written assurance that appropriate security procedures are in place.

15.22 During the examination it was observed that the Department had not established a system to monitor the performance of SaskComp on an ongoing basis nor has the Department received written assurance from SaskComp that appropriate procedures are in place.

15.23 This weakness increases the risk that departmental data files and programs may be compromised.

NON-COMPLIANCE WITH AUTHORITIES

15.24 In addition to the foregoing management control deficiencies, my representatives observed that officials of the Department had not complied with

authorities for the collection of money related to the enforcement of The Liquor Act.

15.25 Page 9211.1 of Section 1500 of the Treasury Board Accounting and Reporting Policy Manual in part 8(b) provides as follows:

> *"Pursuant to Section 211 of The Liquor Act, there shall be paid in each fiscal year to the Department of the Attorney General:*
>
> *i) a sum equal to the man year cost for R.C.M. Police enforcement of The Liquor Act for the immediately preceding fiscal year,*
>
> *ii) a sum equal to the actual amounts paid to the R.C.M. Police and municipalities during the immediately preceding fiscal year for holding intoxicated persons overnight,*
>
> *iii) a sum equal to fifteen percent of the annual actual expenditures for the sub-votes "Provincial Court" and "Salaries of Chief Judge and Provincial Court Judges" for the immediately preceding fiscal year,*
>
> *iv) the sum of $25,000 to provide for prosecution witnesses and administration related to Liquor Act enforcement."*

15.26 During the course of the examination, it was observed that the Department did not bill the Saskatchewan Liquor Board for these costs of approximately $2 million incurred during the fiscal year ended March 31, 1986 until August, 1987. Accordingly, these moneys were not taken into revenue of the Consolidated Fund until the 1987 fiscal year.

DEPARTMENT OF LABOUR

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DEPARTMENT OF LABOUR

EXPENDITURE

16.00 Each government agency has a responsibility to ensure that its expenditures are authorized by management in accordance with relevant legislation. In order to adequately discharge this responsibility each agency must have in place a system of controls sufficient to satisfy management that this responsibility is complied with.

16.01 The Comptroller, Department of Revenue and Financial Services, makes payments which are charged to the appropriation for the Department of Labour.

16.02 The Comptroller makes these payments based upon payment vouchers which have been duly authorized by officials of the Department of Labour and with regard to payroll, by officials of the Department of Revenue and Financial Services.

16.03 The Comptroller subsequently produces a report for officials of the Department detailing the payments which were charged to the appropriations for the Department.

16.04 Officials of the Department do not have a control procedure to establish the accuracy and authority for the charges to the appropriations for the Department of Labour.

16.05 The consequence of this weakness is that the Department of Labour may incur commitments in excess of the amounts appropriated, or fail to detect incorrect, incomplete or unauthorized charges made against the appropriations for the Department.

REVENUE

16.06 Each government agency is responsible to collect revenues within the requirements of the governing statutes.

16.07 Officials of the Department did not have procedures in place to ensure revenue collections were in compliance with these statutes.

16.08 My representatives observed the following instances of lack of compliance with statutes regarding revenue collections:

16.09 Section 5 of The Department of Labour Act states:

"5(1) The minister shall, on or before the thirtieth day of June in each year, advise the Workers' Compensation Board of the estimated cost for the then current calendar year of the administration by the department of the industrial safety program under The Occupational Health and Safety Act.

(2) The Workers' Compensation Board shall, upon being advised of the estimated cost for the then current calendar year of the administration by the department of the industrial safety program, pay into the consolidated fund, in respect of such administration costs for that calendar year, on or before the thirty-first day of January of the year next following such sum, not exceeding the actual costs of the administration of the program for that calendar year, as the Lieutenant Governor in Council may direct."

16.10 Management of the Department has informed my representatives that the following amounts had been collected from the Workers' Compensation Board during the year ended March 31, 1987:

i)	Worker's Compensation Act Review Committee	$ 106,403
ii)	Worker's Advocate Expense Recovery	243,295
iii)	Cost of Industrial Safety Program (Occupational Health and Safety)	2,112,179
	Total collected	$2,461,877

16.11 An Order-in-Council for the Industrial Safety Program was provided to my representatives. However, the Order-in-Council (O.C. 283/87) was dated March 24, 1987 which is after January 31, 1987, the date required by the above Act. Also, there appears to be no specific legislative authority for the collection of other revenue from the Worker's Compensation Board. Accordingly, it appears that the entire amount of $2,461,877 was collected without proper authority.

16.12 The Department of Labour collected revenue for the inspection of a variety of equipment. The fees charged for these inspections are specified in various regulations.

16.13 Pursuant to The Federal-Provincial Agreements Act, the Department of Labour entered into a contract with the federal government for inspection of facilities under federal jurisdiction. The agreement specified a fee to be charged to the Government of Canada of the amount specified in the applicable regulations plus a surcharge of 200%.

16.14 The agreement reads in part:

> *"9. Duration*
>
> *Subject to paragraphs 10, 11, and 12 this Agreement shall come into effect on the 1st day of April, 1982 and shall continue in effect until the 31st day of March, 1985.*
>
> .....
>
> *11. This Agreement may, at the option of Canada, be renewed for a period not exceeding 5 years beyond the expiry date stated in paragraph 9, upon Canada giving notice in writing to Saskatchewan not less than 6 months before the said expiry date."*

16.15 I have been informed that the inspections performed for the Federal Government have been continued past the March 31, 1985 expiry date on a verbal basis and approximately $36,000 has been collected for the year ended March 31, 1987. The surcharge collected was 200% to September 30, 1985 and 125% thereafter based upon rates reached in a verbal understanding with officials of the Federal Government.

16.16 Since the Lieutenant Governor in Council has not approved changes to the surcharge of 200% and because no written agreement has yet been signed with the Federal Government, there appears to be no authority to support the amount of $41,589 collected in 1986 and approximately $36,000 collected in 1987 from the Federal Government after March 31, 1985.

16.17 Section 22 of The Fire Prevention Act, 1980 which is administered by the Department of Labour states:

> *"22(1) As a contribution to the cost of the fire prevention services provided for in this Act, every company, whether stock or mutual, licensed or not, transacting the business of fire insurance within the meaning of The Saskatchewan Insurance Act shall pay to the Minister of Revenue and Financial Services a fee equivalent to 1% of its premium receipts and assessments, less return premiums and cancellations, calculated on the property insurance reported to the Superintendent of Insurance during the preceding year, including premiums covering fire risks only on automobiles.*
>
> *(4) Any moneys paid pursuant to subsection (1) are to be deposited in the consolidated fund and dedicated to paying the expenses incidental to the administration of this Act and the Regulations."*

16.18 Management of the Department has informed my representatives that expenses incidental to the administration of the Act are borne by the Department of Labour's appropriation, but that revenue collected under the act is collected by the Department of Revenue and Financial Services and paid to the Consolidated Fund as revenue of that Department.

16.19 As revenue is received and costs borne by different Departments, and money received is not set aside within the Consolidated Fund, the requirement of the Act that revenue be "dedicated to" the expenses under the Act does not appear to be satisfied.

DATA SECURITY

16.20 The Department utilizes the services of Saskatchewan Computer Utility Corporation (SaskComp) for data processing. The Department has the responsibility to ensure that the computer operating system and processing environment is administered in such a manner as to achieve proper integrity over the processing operations done for the Department, and to maintain security over Departmental programs and data files in accordance with policies and standards laid down by the Department.

16.21 In order to discharge this responsibility, the Department must demonstrate that either they have monitored performance of SaskComp for compliance with their policies and standards on a continuous basis, or alternatively, that SaskComp has provided to the Department on an ongoing basis written assurance that appropriate security procedures are in place.

16.22 During the examination, it was observed that the Department had not established a system to monitor the performance of SaskComp on an ongoing basis nor has the Department received written assurance from SaskComp that appropriate procedures are in place.

16.23 This weakness allows the possibility that departmental data files and programs may be compromised.

17

DEPARTMENT OF PARKS AND RENEWABLE RESOURCES

17.00 During the course of the examination of the accounts of the Department of Parks and Renewable Resources my representatives observed that the rules and procedures applied by officials of the Department were not sufficient in all respects to ensure compliance with the Forest Regulations.

17.01 Forest Regulations 240/67, Part III, section 14(c) requires the return of all expired permits previously issued to an applicant, or an affidavit or statutory declaration must be submitted setting forth that such permits have been lost or destroyed; and all indebtedness must be paid to the Department before a timber permit can be issued.

17.02 My representatives noted that at present, timber permits are being issued without prior permits being returned or an affadavit or statutory declaration being received. This results in timber permits being issued without complying with procedures set out in the above regulations.

17.03 This concern was communicated to the Minister-in-Charge of the Department. The Minister responded that the Department intended to continue with its present actions in this regard as to do otherwise would result in an unfair disruption to sawmills which operate on a year round basis. The Minister also advised that the Department would develop firm plans to remove section 14(c) at the earliest appropriate time.

17.04 My representatives also observed the following transactions which were without apparent authority:

17.05 According to Section AR 1010 of the Treasury Board Accounting and Reporting Policy Manual, Treasury Board must approve any major changes to the nature or operation of a Revolving Fund. Also, Section AR 1010 requires that Treasury Board approve expenses, recovery rates and revenues, capital acquisitions, capital disposals and net cash expenditure of a Revolving Fund. During 1986/87, the Resource Protection and Development Revolving Fund (Revolving Fund) incurred expenditures of $3,557,081 for "Capital Development" and "Program Capital" programs.

17.06 It was observed during the audit examination that the required Treasury Board approval was not obtained for the Capital Development and Program Capital programs financed by the Revolving Fund until January 28, 1987, whereas the expenditures were incurred by the Revolving Fund in respect of these programs prior to that date. As a result, the expenditures were made without the necessary Treasury Board approval being in place.

17.07 With regard to the programs authorized in January, 1987, Treasury Board indicated that the Capital Development Program would be funded by the "Property Management Corporation" and the Program Capital program would be funded through the Parks and Renewable Resources appropriation. Criteria were established to determine which projects qualified for each program and therefore which agency would be responsible for the funding. However, since funds were not appropriated to the Department of Parks and Renewable Resources for the capital program for the fiscal year 1986/87, the Revolving Fund was unable to recover the costs designated by Treasury Board to be recovered from the Consolidated Fund.

17.08 On March 31, 1987, the Department entered into an agreement with Saskatchewan Property Management Corporation (SPMC) to provide for the recovery from SPMC of all costs incurred on the capital programs. Accordingly, SPMC eventually paid the Revolving Fund for the portion of the program which the Consolidated Fund was unable to fund as an expenditure in the 1986/87 fiscal year.

17.09 Because there was no contract with SPMC at the time the costs were incurred and because no funds were appropriated to the Department of Parks and Renewable Resources for capital programs, officials of the Department financed the costs of the capital programs through the Revolving Fund without adequate authority and without satisfactory assurance that the costs could be recovered as required by the mandate for Revolving Funds established by Treasury Board.

DEPARTMENT OF REVENUE AND FINANCIAL SERVICES

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18

DEPARTMENT OF REVENUE AND FINANCIAL SERVICES

COMPTROLLER

18.00 A review and evaluation of the management control systems established by the Comptroller to discharge his responsibilities disclosed the following conditions which, in my opinion, resulted in more than a relatively low risk that errors or fraud in amounts that would be material may occur and not be detected within a timely period.

Revenue

18.01 An important element in any system of internal control is careful supervision by management. Since, in larger organizations, no one manager can have direct personal knowledge of every facet of the organization's activities, an important aspect of management supervision is the monitoring of the continuing effectiveness of all other controls in the organization.

18.02 Section 25 of the Department of Revenue and Financial Services Act describes the duties of the Comptroller and provides in part as follows:

> *"(i) the comptroller shall:*
>
> *(a) supervise the receipt, recording and proper disposition of public money;"*

18.03 The Comptroller's interpretation of this responsibility was communicated to me as follows:

> *"- establish standards,*
> *- monitor and evaluate, where necessary, provide direction or suggestions for improvement in the process,*
> *- may provide assistance to affect changes as identified,*
>
> *for all receipts of funds that are under the direct supervision of Treasury Board except that discretion can be applied where a proper management structure exists within an entity that will ensure the process is adequate."*

18.04 During the examination, it was observed that the Comptroller has not documented those systems and procedures established to monitor and evaluate all receipts under the direct supervision of Treasury Board. Consequently, I was unable to determine whether the Comptroller has established systems and procedures sufficient to supervise the receipt, recording and proper disposition of public money.

18.05 For example, the Comptroller's Division, prior to each fiscal year end, issues an accounting bulletin to departments and agencies which establishes the cut-off dates for transaction processing and the procedures to be employed in the fiscal year end process to achieve an accurate cut-off for financial reporting in accordance with the established accounting policy. During the examination, it was observed that the Comptroller's Division, with respect to revenue, had not established a system to monitor department and agency compliance with this bulletin.

18.06 This weakness allows the possibility that revenue recording errors may occur without detection on a timely basis.

18.07 This matter was reported in my 1986 annual report.

Payroll

18.08 Also essential to an appropriate system of management controls are rules and procedures that ensure that each transaction is properly authorized.

18.09 During the examination it was determined that payroll payments for monthly paid employees are initially requisitioned by use of Saskatchewan Public Service Commission Personnel Action Form (HRS 111) signed by the Permanent Head/Nominee and a Treasury Board Order #1 Authority. Once requisitioned, payroll payments continue to be charged each month to the appropriation until otherwise notified. It was also determined that departments and agencies are not provided with the required information to allow reconciliation of the current payroll with the previous payroll and authorized changes.

18.10 This weakness allows the possibility of unauthorized payroll payments being made.

18.11 Further, because of this weakness and since this HRS 111 form is not provided to the Comptroller for his examination (rather the Public Service Commission updates the employee data base computer file which results in payroll payment), it is my opinion that the Comptroller is not in a position to fulfill his statutory duty to control disbursements from the Consolidated Fund in accordance with the provisions of The Department of Finance Act, 1983 and The Department of Revenue and Financial Services Act.

18.12 I have been informed by the Comptroller's Division that a payroll report is currently under development which will provide departments and agencies with the information necessary to reconcile the current payroll with the previous payroll plus authorized changes prior to payroll payments being made. It is anticipated that this reconciliation will be documented and signed by a departmental or agency official and reviewed by the Comptroller's Division pre-audit staff.

18.13 Also, during the examination it was determined that payroll payments for bi-weekly paid employees are requisitioned by use of a Time Report Form which details in part:

- hours of work during the period
- pay rate
- vote, organization and object code

This form is not required to be signed by the Permanent Head/Nominee or Treasury Board Order #1 Authority.

18.14 This weakness allows the possibility of unauthorized payroll payments being made and in my opinion does not satisfy The Department of Finance Act, 1983 requirement for a certification given by the permanent head of the appropriate department or agency or any other employee or officer authorized by Treasury Board, as to the lawfulness, propriety and accuracy of the claim or proposed payment and the allocation of charges to the claim or payment prior to public money being paid out of appropriation.

18.15 Further, although the Comptroller's Division pre-audit section reviews these time reports and performs certain data processing in-put and out-put control procedures, it is my opinion that the lack of an appropriate requisition and certification on the time reports does not allow the Comptroller to fulfill his statutory duty to control disbursements from the Consolidated Fund in accordance with the provisions of The Department of Finance Act, 1983 and The Department of Revenue and Financial Services Act.

18.16 I have been informed by the Comptroller's Division that in August, 1987 a procedure was implemented whereby a final batch balance and edit report detailing payroll payments to be made to bi-weekly employees is provided to departments and agencies to allow signature by an appropriate official. This form is reviewed by the Comptroller's Division pre-audit staff.

Electronic Data Processing

18.17 As part of the examination my representatives examined the rules and procedures to determine whether (1) the security systems are adequate to prevent and detect unauthorized access to information or unauthorized manipulation of data maintained on computer files, (2) the rules and procedures for development of computer systems are adequate to ensure essential records are maintained, and (3) back-up files and programs and alternate processing facilities are available to ensure that computer processing capability can continue in the event of an equipment failure.

18.18 My representatives observed that the Comptroller has not documented a disaster recovery plan for the Revenue and Expenditure System and the Human Resources Payroll system.

18.19 It was also observed that the Comptroller's Division utilized the facilities of Saskatchewan Computer Utility Corporation for data processing services with respect to the Revenue and Expenditure System and the Human Resources Payroll System. However, the Comptroller's Division retains the responsibility to ensure that this data centre maintains its computer operating system and processing environment in such a manner as to achieve proper integrity over the processing operations performed for the Comptroller's

Division, and to maintain security over programs and data files in accordance with policies and standards laid down by the Comptroller's Division. In order to fulfill this responsibility, the Comptroller's Division must demonstrate that either it has monitored performance of the data centre for compliance with their policies and standards on a continuous basis, or alternatively, that the data centre has provided to the Comptroller's Division, on an on-going basis, written assurance that appropriate procedures are in place.

18.20 During the audit examination, it was observed that the Comptroller's Division had not established a system to monitor the performance of the data centre on an on-going basis, nor had the Comptroller's Division received written assurance from the data centre that appropriate procedures are in place. Without either of the foregoing, there is no reasonable assurance that there has not been any unauthorized access to the Comptroller's Division data files and programs.

EDUCATION AND HEALTH TAX

18.21 During the examination of the Department's accounting records and the related systems of internal control my representatives observed that officials of the Department had still not complied with the 1980 recommendation of the Standing Committee on Public Accounts that the procedures used in the Department be reviewed to ensure that there is a balance between the number of detailed field audits on the one hand and the costs of the audits on the other hand so that an effective check on the assessment of taxes is in place.

18.22 In my 1986 annual report I reported that I was advised by management of the Department that the Department has started to address the issue to ensure that there is a balance between the number of audits on the one hand and the costs of the audits on the other hand so that an effective check on the assessment of Education and Health Tax revenue is in place. The Department contracted the services of two consultants to assess and recommend a course of action. As a result, the Department informed me that a system of random sampling was implemented in 1986-87 and the Department is currently evaluating the results.

18.23 Since my last report I have been informed by the Deputy Minister of Finance that as a result of unexpected increased activity in other programs administered by the Department audit resources have been reallocated. The Deputy Minister has also informed me that it was planned to conduct sufficient audit work in 1988/89 to attempt to project foregone revenues.

18.24 Until appropriate procedures are fully established, I remain of the opinion that there is no evidence that the rules and procedures applied are sufficient to secure an effective check on the assessment of Education and Health Tax revenue.

PUBLIC EMPLOYEES BENEFITS AGENCY

18.25 The Public Employees Benefits Agency (Agency) administers a number of plan related special purpose funds.

18.26 The Public Employees' Dental, Disability Income, and Group Life Insurance Funds were established pursuant to subsection 31(2) of The Department of Revenue and Financial Services Act to be operated, administered and managed by the Agency. Order-in-Council #1416/84 designates the employees, officers and members of certain Crown agencies that can participate in these Plans.

18.27 Essential to an appropriate system of management controls is the requirement to have sufficient and appropriate employees to perform the necessary procedures to safeguard and control public money.

18.28 The following deficiencies in the management control systems result from the failure to perform procedures established by the Agency itself or which, where not formally documented, were performed by employees of the Agency in prior years.

18.29 The inability of the Agency to carry out these procedures indicates, in my opinion, that the Agency did not retain sufficient staff resources to faithfully and properly maintain the accounts of these funds.

Supervisory Controls

18.30 Also important to an appropriate system of management controls are controls which permit management to effectively discharge its responsibilities of reviewing, analyzing and controlling operations of an organization. A key element of such a system is an effective interim financial reporting and monitoring system.

18.31 My representatives noted that the monthly procedures were not followed regularly for the December 31, 1986 fiscal year. It was also noted that the year end procedures to produce timely and accurate financial statements were not carried out for the Dental Plan and were not properly carried out for the Disability Income and Group Life Insurance Plans. In the two plans where procedures were carried out there were significant errors in the year end financial statements which were presented to my representatives for audit.

18.32 My representatives informed management of the discovered errors contained in the draft financial statements and as at March 31, 1988. I have not received revised financial statements for the December 31, 1986 fiscal year.

18.33 Failure to prepare these financial statements on a timely basis results in the Legislative Assembly not receiving sufficient timely information to hold the executive government accountable for the administration of these

Plans and also results in non-compliance with authorities as the financial statements for these plans are required by the Treasury Board Directives to be included in the Public Accounts.

Revenue

18.34 Also important to an appropriate system of management controls are rules and procedures that ensure that all revenue which should be received is received.

18.35 In my 1986 annual report I reported that the Public Employees Benefits Agency has prepared a procedures manual for the accounting functions of the Public Employees' Group Life Insurance Fund. Included in this procedures manual is a section describing the accounting systems for premiums. One of the procedures for premiums is the timely preparation of premium ledger sheets to record the contributions received monthly from each agency that submits premium statements. These ledger sheets are to be prepared for each agency to provide a basis for ensuring all agencies contribute monthly.

18.36 In response to my concerns, the Deputy Minister of Revenue and Financial Services indicated the following:

> *".....additional assurance as to the completeness of premiums is achieved from the monitoring function performed by the insurance carrier. The insurance carrier performs a regular monitoring function of premiums collected and volumes of insurance coverage for all participants of the plan. Any missed premiums during a month would be reported immediately to the Agency."*

18.37 The following observations are relevant with regard to this response:

a) There is no requirement in the agreement with the insurance carrier to perform such a monitoring function; and

b) there was no formal correspondence from the insurance carrier to the Agency indicating the results of the monitoring function. Without some formalized reporting procedures in place, the Agency does not have any direct assurance that such monitoring is, in fact, operating effectively.

18.38 As a result, the Agency does not have satisfactory assurance that alternative procedures are in place to ensure the completeness of premium revenue.

18.39 The procedures manual prepared for the administration of this Fund still requires the timely preparation of premium ledger sheets. The ledger sheets for 1986 were prepared in November, 1987, and accordingly, were not prepared on a timely basis to appropriately control premium revenue.

18.40 My examination of the rules and procedures used to control premium revenue for the Public Employees' Disability Income and the Dental Funds, disclosed the following deficiencies in the management control system to control premium revenue.

18.41 For each of these Funds when premiums/contributions are received from participating employers, a clerk prepares the deposit and records the receipts in a contribution ledger. This clerk will also review the contribution ledger to ensure that each participating employer has remitted premiums for each month. However, there is no independent check done on a timely basis to ensure that all monies received and recorded in the cash mail record have been deposited. In addition, there is no independent review or balancing of the contribution ledger to ensure that premiums are, in fact, remitted each month by each participating employer. Furthermore, the accounting records were not properly maintained as stated earlier, and there were no independent reconciliations maintained with the bank statements or with the reports from the administering insurance company.

18.42 As a result of these weaknesses, premiums/contributions may not be received, deposited and/or recorded in the accounts of the Funds and any errors would not be detected in a timely manner.

18.43 The following is presented as examples of the types of errors that were discovered regarding premium revenue.

18.44 The examination of the accounts of the Dental Fund disclosed an error of $358,360 in the reported contribution revenue set out in the financial statements presented to my representatives for audit.

18.45 The examination also disclosed the following unexplained, unreconciled difference in the bank account for the Dental Fund:

18.46 Contribution revenue collected is deposited to a bank account in Regina. The external administrator of the Plan maintains a bank account in Toronto for the payment of claims. On a regular basis, the external administrator transfers to the Toronto bank account the amount of funds required to cover the claim payments.

18.47 The Agency does not check these bank transfers and as previously reported does not perform bank reconciliations on a timely basis to ensure that all charges to the bank account are properly accounted for.

18.48 As a result of this weakness, charges to the bank account are not properly controlled by the Agency. When the bank reconciliation was performed by the Agency in January, 1988, an unreconciled difference of approximately $7,000 as at December 31, 1986 was discovered. As at March 31, 1988, management of the Agency has not yet determined what constitutes the difference.

18.49 In addition to the foregoing deficiencies in the control system over premium/contribution revenue, my representatives observed a control deficiency relating to investment income in the Disability Income and Group Life Insurance Funds.

18.50 The Agency has an agreement with an insurance carrier for these Funds which delegates authority for the portfolio management of investments to the insurance carrier. However, the Agency continues to be responsible to have timely procedures in place to ensure that the delegated authorities are met under the terms of this agreement. One such procedure would be a check of income earned on investments to ensure all investment earnings are received and recorded in the appropriate period.

18.51 For the period January to December, 1986, there was no evidence that a check of dividend earnings for equity investments or of interest earnings for bonds and short-term investments had been performed.

18.52 As a result of this weakness, errors in investment income may not be detected by the Agency.

18.53 The following is an example of the errors which may occur from the failure to carryout these procedures.

18.54 The audit tests conducted by my representatives disclosed a semi-annual interest payment of $17,812.50 which was not reported by the insurance carrier in its 1986 investment activity reports, and accordingly was not recorded in the 1986 accounting records nor in the draft financial statements presented for audit of the Disability Income Fund. The interest payment was, however, reported in a 1987 investment activity report from the insurance carrier and accordingly, was subsequently received.

Expenditures

18.55 My representatives observed the following deficiencies in the rules and procedures to control payments for dental claims.

18.56 Each government agency is responsible to ensure that its payments are properly authorized in accordance with relevant authorities. In order to discharge this responsibility each agency must have in place a system of management controls sufficient to ensure that the above responsibility is discharged.

18.57 When the Agency receives dental claim forms from the participating employers, Agency officials approve the forms after checking to ensure all required information and signatures are present. These forms are then sent to the external administrator for adjudication and are processed for payment. The external administrator then sends a cheque directly to the claimant, and regularly returns to the Agency the processed claims forms and a computer report which details the claims paid.

18.58 The Agency, however, did not perform any timely procedures to ensure that payments made by the external administrator are, in fact, supported by properly approved and fully completed claim forms that were previously authorized by the Agency. In addition, there was no check to ensure the claims are correctly reimbursed using the proper rate schedule, and that the maximum allowable claim reimbursement has not been exceeded.

18.59 As a result of this weakness, unauthorized or incorrect payments may be made by the external administrator and not detected by the Agency on a timely basis.

PUBLIC EMPLOYEES SUPERANNUATION PLAN SUPERVISORY BOARD

18.60 The Public Employees Superannuation Plan Supervisory Board administers the Public Employees (Government Contributory) Superannuation Fund and the Public Employees (Government Contributory) Annuity Fund.

Management Control Deficiencies

Supervisory Controls

18.61 Essential in an appropriate system of management controls are control procedures which permit management to review, analyze and control the operations of an organization as well as control procedures for the Board to monitor the performance of management. Key elements of such a system are budgets and an effective interim financial reporting system so that management and the Board have financial information to assess performance and adjust operations as necessary.

18.62 During the course of the examination my representatives made the following observations regarding these supervisory controls.

18.63 Section 39 of The Superannuation (Supplementary Provisions) Act established the Supervisory Board to administer the Public Employees (Government Contributory) Superannuation Plan. The Act requires that the Board consist of seven members appointed by the Lieutenant Governor in Council, namely:

a) a chairman recommended by the minister;

b) three members representing employees; and

c) three members representing the employers of employees participating in the plan.

18.64 Regulations issued under the Act provide that four members, at least two of whom represent employers and two of whom represent employees, shall be a quorum and shall have all the powers of the Board, provided that reasonable notice of a meeting of the Board is given to all board members.

18.65 By Order-in-Council in April, 1984, seven members were confirmed as constituting the Board under Section 39 and in November, 1987 five new members were appointed replacing five members who had resigned or deceased in the intervening period. A review of the minutes indicates that the appointed Chairman resigned in the summer of 1985, one member retired and another was deceased in the fall of 1986 while two others apparently resigned or retired in the spring of 1987. No meetings of the Board were held between February 18 and November 19, 1987, apparently because there were not sufficient members remaining on the Board to constitute a quorum.

18.66 The failure to maintain the composition of the Board at the level required by Section 39 does not allow for the breadth of oversight intended by the governing legislation. The failure to maintain the composition of the Board at a level which would permit even a quorum to be achieved for meetings means, in effect, that the Plan and the two funds operated thereunder were administered by management for a period of almost nine months without any executory control by the Board.

18.67 In my opinion, the composition of the Board must, at all times, be maintained at its prescribed level so that the intent of the legislation is achieved. The failure to maintain the Board's prescribed composition may well have been a significant contributing factor in allowing the following management control deficiencies, most of which have been outlined in my previous annual reports, to have either remained or deteriorated further.

18.68 In my 1986 annual report I reported that monthly financial statements were prepared but there was no review and approval of monthly financial statements by the Board or by senior management.

18.69 The situation in 1986/87 deteriorated from that in the previous year; general ledger entries were not processed currently, which meant that interim financial statements could not be prepared on a timely basis for review by senior management of the Agency or the Board. This leads to the conclusion that the Public Employees Benefits Agency no longer retains adequate staff resources necessary to satisfactorily discharge the many and varied responsibilities assigned to it.

18.70 This weakness impairs the ability of the Board and the Agency to take corrective action for any errors or problems that might be identified in the interim reports, with the consequence that the stewardship responsibilities assigned by statute cannot be properly and faithfully discharged. This weakness contributed to the following specific instance of non-compliance with authorities.

18.71 Subsection 46(2) of The Superannuation (Supplementary Provisions) Act states:

> *"(2) The board shall, in each fiscal year, in accordance with The Tabling of Documents Act, submit to the minister:*

(a) a report of the board upon its business for the immediately preceding fiscal year; and

(b) a financial statement showing the business of the board for that year, in such form as may be required by Treasury Board.

(3) The minister shall, in accordance with The Tabling of Documents Act, lay before the Legislative Assembly each report and statement received by him under subsection (2)."

18.72 Financial statements for the 1986 and 1987 fiscal years have not been prepared and therefore have not been tabled in the Legislative Assembly at the date of this report.

18.73 As a result of this failure to table financial statements, the Legislative Assembly does not have information to hold the executive government accountable for the administration of this public money.

Authorization Controls

18.74 Inherent in an appropriate system of management controls is the formal communication of policy and delegation of authority from senior management to the appropriate employees and procedures to ensure that there is compliance with the policy and delegation.

18.75 There is no complete and current policy and procedures manual which describes the objectives of the Board's management control system and the steps prescribed to achieve those objectives.

18.76 A procedures manual which was prepared several years ago exists, however this manual is incomplete with respect to certain important management control objectives and has become outdated relative to changes in responsibilities of staff at the Agency and to the changes in the activities of the Board.

18.77 This weakness allows the possibility of the accounting systems not operating as intended and employees not being aware of their duties and responsibilities.

18.78 In addition, it was observed that journal entries were not approved by a senior official of the Agency, independent of preparation, to ensure they were properly prepared.

18.79 Failure to have journal entries approved by a senior official increases the risk that errors in the accounting records could result and remain undetected.

Other Controls

18.80 Another basic characteristic of an appropriate system of management controls are rules and procedures that ensure that all transactions

are recorded and that they are recorded promptly in the correct amount, properly classified and in the correct period.

18.81 During the course of the examination it was observed that there was an absence of procedures in place to ensure that all investment income earned was received. For short-term investments, bonds and debentures and Canadian equities, there was no audit evidence of the procedures performed. For mortgages, real estate and foreign equity investments, there was no systematic check to ensure all income earned was received.

18.82 These deficiencies in the management control system could result in investment income being earned by the Fund but not received or recorded as receivable. In addition, since the Board approves an interest allocation rate based on the recorded investment earnings, any errors due to the above deficiencies could result in this rate being incorrectly determined.

18.83 During the year ended March 31, 1987, debenture interest income totalling $106,559 was not received from three debtors on or near the interest due dates. The fact that interest was not received when due went unnoticed for six, eight and fifteen months respectively. This demonstrates the inadequate system used to ensure that all income to which the fund is entitled is received.

Non-Compliance With Authority

18.84 In addition to the foregoing management control deficiencies, my representatives observed the following transactions where money was transferred without appropriate authority.

18.85 The Public Employees (Government Contributory) Annuity Fund was established on June 19, 1985, as a result of an amendment to The Superannuation (Supplementary Provisions) Act. Since the annuity underwriting activities were previously included as part of the Public Employees (Government Contributory) Superannuation Fund, the Board, on June 17, 1986, approved the process to be used in determining the amount of money to be transferred from the superannuation fund to the new annuity fund as at March 31, 1986. As a result of this process, the amount transferable as at March 31, 1986 was determined to be $2,737,750.

18.86 Based on the interest allocation approved by the Board, the recorded amount standing to the credit of the annuitants as at March 31, 1986 was $2,381,162. The excess amount transferred, $356,588, was transferred without legislative authority and represents an encroachment on the amounts standing to the credit of the remaining members of the superannuation fund. This conclusion is supported by a legal opinion received by the Manager, Financial Services, Public Employees Benefits Agency.

18.87 This legal opinion, dated February 25, 1987, addresses the legislative provisions governing the transfer of monies to the annuity fund. Section 43.1(2) of the Act states:

"If an employee elects to receive an annuity from the board ..... the board shall transfer the amount standing to his credit in the fund to the annuity fund."

18.88 The legal opinion outlines two possible methods of calculating the amount which could be transferred to the annuity fund as the amounts standing to the credit of the annuitants. Both methods used the assets of the superannuation fund as the basis for determining the amounts to be transferred, not the actuarial liability determined, which was the basis used by the Board. This legal opinion states, in part, the following:

"What is clear is that the payment out of the (superannuation) fund to the annuity fund cannot be based on any calculation other than as outlined above. If the amount required to fund annuities already granted exceeds the amount standing to the credit of the annuitants, the unfunded liability is that of the annuity fund. To transfer funds in excess of the amount standing to the credit of the annuitant would encroach on the amount standing to the credit of all of the other employees that have contributed to the fund, and there is no legislative authority whatsoever for such a transfer to take place.

.....Therefore, in my opinion, the Board may transfer the "amount standing to the credit" of an employee, as that amount is determined by the Board in accordance with the Act and regulations, and no more. If the amount transferred is not sufficient to fund the existing annuity contracts, that unfunded liability rests with the Annuity Fund and legislative amendments to the act should be pursued to provide for it." (Emphasis added.)

18.89 I have been advised that the Supervisory Board, which is responsible for administration of these funds, had not yet discussed this legal opinion at its board meetings to December 15, 1987, the most recent minutes reviewed by my representatives. The failure to present this legal opinion to the Board as an agenda item for its consideration has prevented the Board from fulfilling its statutory responsibilities.

PUBLIC SERVICE SUPERANNUATION BOARD

18.90 The Board is responsible for the Public Service Superannuation Plan, Saskatchewan Transportation Company Employees Superannuation Fund (S.T.C. Fund) and the Anti-Tuberculosis League Employees Superannuation Fund (Anti T.B. Fund).

18.91 Officials of the Public Employees Benefits Agency, Department of Revenue and Financial Services administer the Public Service Superannuation Plan, S.T.C. Fund and Anti T.B. Fund.

Management Control Deficiencies

18.92 Essential in an appropriate system of management controls are control procedures which permit management to review, analyze and control

public money. Key elements of such a system are an effective interim financial reporting system that produces timely and accurate financial information to assess performance and adjust operations as necessary.

18.93 During the course of the examination it was observed that for the Public Service Superannuation Board procedures were not performed to ensure that the members' balances are properly removed from the general ledger and subledger account for Employees' Accumulated Contributions when members superannuate. This information is necessary in order to produce accurate financial schedules.

18.94 In addition, the accounting records of the Board were not maintained on a timely basis with the result that there were significant delays in the preparation of financial information.

Non-Compliance With Authorities

18.95 During the audit the following instance of non-compliance with authorities was noted.

18.96 Section 69 of the Public Service Superannuation Act states the following:

> *"69.(1) The board shall, each year, transmit to the member of the Executive Council who presides over the board a report showing:*
>
> *(a) the names of all employees who have retired from the service, or who have died during the last preceding fiscal year;*
>
> *(b) the offices held by them or the nature of their employment respectively;*
>
> *(c) the amount of salary payable to each at the time of retirement or death;*
>
> *(d) the age of each at retirement or death;*
>
> *(e) the cause of retirement in the case of any one retiring before attaining the age of retirement;*
>
> *(f) the amount of superannuation or other allowance granted in each case;*
>
> *(g) all regulations made under this Act.*
>
> *(2) The member of the Executive Council shall lay the board's report before the Legislative Assembly during the first fifteen days of the then next ensuing session, or within fifteen days after its receipt if the Legislature is then sitting, together with the complete statement of the finances of the board for the preceding fiscal year, showing in detail the*

moneys withheld by the Minister of Finance as contributions by employees and moneys paid out by him in respect of allowances or refunds of contributions."

18.97 The above report is to include the financial statements and schedules for the following:

1) Public Service Superannuation Board, which includes the Public Service Superannuation Plan and Employees' Savings Account.

2) Saskatchewan Transportation Company Employees Superannuation Fund.

3) Anti-Tuberculosis League Employees Superannuation Fund.

18.98 As at March 31, 1988, the reports of the Board for the 1985/86 and the 1986/87 fiscal years had not been tabled in the Legislative Assembly. As a result, the Board has not complied with the applicable legislative requirements.

DEPARTMENT OF SOCIAL SERVICES

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19

DEPARTMENT OF SOCIAL SERVICES

19.00 A study and evaluation of the management control systems for the administration of the Department of Social Services disclosed the following conditions which, in my opinion, resulted in more than a relatively low risk that errors or fraud in amounts that would be material in relation to the Department may occur and not be detected in a timely period.

DEFICIENCIES IN CONTROLLING OVERPAYMENTS

19.01 In the fiscal year ended March 31, 1987, the Department of Social Services paid approximately $205 million to recipients of assistance under the Saskatchewan Assistance Plan (SAP).

19.02 A recipient of social assistance receives benefits based in part upon the recipient's personal declaration of circumstances.

19.03 Details of the conditions required for payment, and amounts payable under specific circumstances are specified in *The Saskatchewan Assistance Act*, and *The Saskatchewan Assistance Regulations*. These regulations governing the payment of assistance are complex and generally place the onus on the recipient to fully and accurately disclose the circumstances surrounding the need for assistance. The responsibility of the Department to verify the information provided by the recipient is restricted by resources available and has to be balanced against the additional responsibility to be responsive to the needs of the recipient. Given these conditions, at times, assistance payments are made in excess of that permitted by legislation.

19.04 In order to monitor such overpayments with a view to controlling them, the Department has established a target error rate for overpayments of 4%. The comparison of the actual error rate with the target error rate was to be a measure of whether the overpayments for a given period had remained within acceptable limits.

19.05 Errors in social assistance payments result from two sources, namely, errors made by employees and errors made by recipients.

19.06 It is the responsibility of the Department, in administering SAP, to ensure that information provided by the recipients of assistance is verified for completeness and accuracy. To this end, the Department has established certain prepayment and postpayment verification procedures in order to control incorrect payments.

19.07 During the course of the audit, it was observed that there were a number of instances where the established procedures had not been consistently and properly followed, and as a result incorrect payments had been made.

19.08 The consequence of not following the established procedures in all cases is that incorrect payments are made without ready detection.

19.09 Officials of the Department conducted a study verifying a sample of SAP cases, and concluded that for the fiscal year ended March 31, 1987, the estimated error rate was 10% ($19.8 million), down from 13.9% ($26.7 million) in 1985/86. 2.5% ($5.0 million) of this error (1985/86 - $8.3 million) in 1986/87 was due to errors made by employees as follows:

a) inadequate compliance with procedures established by the Department to verify information provided by the recipient;

b) inadequate compliance with established procedures to ensure reported case changes are acted upon on a timely basis; and

c) inadequate compliance with established procedures to ensure information is acted upon correctly.

19.10 The remainder of the overpayments described above were due to recipient generated errors. Recipient generated errors caused most of the overpayments - 7.5% ($14.8 million) in 1986/87 (1985/86 - $18.4 million).

ABSENCE OF BENEFIT ANALYSIS TO IDENTIFY COST EFFECTIVE CORRECTIVE MEASURES

19.11 In my 1986 annual report, I reported that the Department should review procedures to ensure that there is a balance between the number of detailed investigations aimed at detecting and limiting overpayments on the one hand, and the cost of such investigations on the other, in order that measures established are cost effective.

19.12 During the period under review, cases involving incorrect payments were analysed by officials of the Department to assess the major causes of overpayments. This is reproduced as follows:

Cause	Percentage of total over-payments
Living Arrangements/ Family Composition/ Marital Status	5.3%
Income	3.3
Other	1.4
	10.0%

19.13 Given the extent of overpayments discussed above, the need for efficient and effective remedial action to limit overpayments is apparent.

19.14 In this connection, departmental officials identified certain possible corrective measures and implemented the following:

a) established clear and enforceable guidelines for common-law relationships;

b) established procedures that ensure recipients recognize the importance of reporting all income;

c) prescribed uniform policies for verification of changes in residence;

d) established uniform policies on calculation of shelter allowances;

e) established a program of recipient home visits;

f) performed a closer evaluation of districts which have higher than average error rates;

g) confirmed new applicants' status with the Unemployment Insurance Commission; and

h) strengthened internal audit practices to reduce department generated case errors.

19.15 A cost/benefit analysis by the Department of each of these corrective measures should enable the Department to objectively judge the amount of resources to be applied to each of the corrective measures.

19.16 Officials of the Department have informed my representatives that, to the extent possible, the Department has performed cost/benefit analyses on these corrective measures.

19.17 However, in my opinion, there is insufficient documentation prepared by the Department to demonstrate that there is a balance between the number of detailed investigations aimed at detecting and limiting overpayments on the one hand, and the cost of such investigations on the other, in order that measures established are cost effective.

DEFICIENCIES IN VERIFICATION PROCEDURES

19.18 During the period of my examination, management of the Department implemented control procedures which the Department refers to as "Mandatory Reporting".

19.19 Mandatory Reporting is a process where a sample of fully employable SAP recipients are sent a Mandatory Reporting form in the mail, and if the form is not satisfactorily completed and returned within a specified period of time, future assistance is cancelled. If after cancellation the recipient inquires about the lack of payments, the recipient is required to be interviewed in person in order for the assistance to be reinstated.

19.20 Management of the Department has informed my representatives of the following results of the Mandatory Reporting procedures during the period of my examination:

NUMBER OF RECIPIENTS SAMPLED	CHEQUES CANCELLED		
	Number	%	Value
33,721	1,830	5.4%	$759,875

19.21 One of the aims of the above mentioned procedures should be to identify all cases where assistance is being paid in error and to further investigate. In this connection, although the officials had followed up on a sample of cases where cheques were cancelled, they had not carried out investigations on all cases of cheque cancellations.

19.22 Further investigation of all cheque cancellations is necessary for the following reasons:

i) to gather evidence as to whether fraud was involved, whether by recipient or employee, and

ii) to identify corrective measures to prevent similar situations of overpayments from arising in the future.

ANNUAL DECLARATIONS

19.23 Officials of the Department had not complied with their established procedures to ensure that each recipient of assistance files an annual personal declaration of circumstances. This declaration is intended to ensure that the individual is still eligible and also can affect the amount of assistance to which the individual may be entitled as required by the Saskatchewan Assistance Regulations.

19.24 The estimated net overpayments described in paragraph 19.10 of this chapter, in the amount of $14.8 million (7.5% error rate), were recipient generated due to incomplete or inaccurate information.

19.25 Incomplete and inaccurate recipient information is frequently identified when an annual review of circumstances is eventually completed.

19.26 My representatives observed that approximately 2,700 recipients had not filed this declaration at March 31, 1987 or approximately 13% of the entire case load.

19.27 In my opinion, the failure to obtain annual declarations in a timely manner contributes significantly to the estimated $14.8 million in overpayments.

OTHER AUDIT OBSERVATIONS

19.28 My representatives were informed by officials of the Department that they had conducted fraud investigations on three hundred and five cases of which one hundred and sixty-six cases were referred to the police for investigation in the year ended March 31, 1987.

19.29 The management control deficiencies reported in this chapter were also reported in my 1986 annual report.

19.30 The Department of Social Services appeared before the Standing Committee on Public Accounts on February 4, 1988. The Committee discussed the management control deficiencies with the Department.

19.31 At the date of this annual report, the Committee has not made a recommendation on these matters.

DEPARTMENT OF SUPPLY AND SERVICES

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DEPARTMENT OF SUPPLY AND SERVICES

20.00 All employees of the Department of Supply and Services resigned on February 28, 1987 and accepted employment with the Saskatchewan Property Management Corporation (SPMC). As a result, the departmental activities after that date were being carried out by the employees of SPMC. The Department's former organization structure was non-existent after March 1, 1987.

20.01 My representatives made the following observations regarding charges to departmental appropriations that did not appear to have appropriate authority.

GRANT PAYMENTS

Payment for Department of Parks and Renewable Resources 1986/87 Program Capital Construction Projects - $2,414,660

20.02 The above payment was charged to object code "231 - Rent of ground, buildings and other space". Prior to August 31, 1987, my representatives enquired whether there was a written agreement supporting the payment. The management of the Department informed my representatives that the matter was being investigated and that the information requested would be provided as soon as it became available. Subsequent to August, 1987, my representatives attempted to follow up this matter numerous times and each time they were informed that the matter was being investigated. On February 17, 1988, my representatives were able to meet with management, at which time they were informed that no written agreement existed and that the rent was calculated in accordance with SPMC's accommodation manual. Upon further investigation of this payment, Department officials informed my representatives that the payment was not for rent, but was a grant payment to SPMC respecting the Department of Parks and Renewable Resources 1986/87 program for capital construction projects. However, the voucher was incorrectly coded and no approval was obtained from the Lieutenant Governor in Council, as required under The Public Works Act in connection with the making of grants to public bodies or individuals.

20.03 In my opinion, the Department had neither support nor authority to make such a payment and accordingly, this payment was not properly vouchered or certified.

20.04 Furthermore, officials were unable to give my representatives a satisfactory explanation as to why the Department of Supply and Services' appropriation was charged with the costs relating to the Department of Parks and Renewable Resources capital construction projects.

Repayment of Loans by Certain Hospitals and Universities - $2,511,210

20.05 Effective March 31, 1986, SPMC, the Department of Health, the Department of Advanced Education and Manpower and various institutions (hospitals and universities) entered into agreements to convert the various grants made by the two Departments in the 1985/86 fiscal year to these institutions into loans owing to SPMC by the institutions. One condition of the loan agreement was that the obligation of the institution was limited to an amount equal to the funds received from the Department of Health or the Department of Advanced Education and Manpower for the repayment purposes and also provided for the repayment of these funds directly from these Departments to SPMC on behalf of each institution.

20.06 In March, 1987, the Department of Supply and Services repaid $2,511,210 in respect of these loan agreements owing to SPMC by making a grant payment to SPMC under the authority of Section 4 of The Public Works Act. The payment was classified (coded) as a grant payment.

20.07 Based on the terms of the loan agreement, such funds should have been provided in the Department of Health and the Department of Advanced Education and Manpower appropriations for these payments with the loan repayment purpose identified in the estimates of these Departments rather than the Department of Supply and Services because the Minister of Supply and Services was not a party to the agreements.

Grants Made to SPMC Re Capital Projects of Various School Boards - $20,950,000

20.08 In March, 1987, the Department of Supply and Services made a grant amounting to $20,950,000 to SPMC, under the authority of Section 4 of The Public Works Act, in order that SPMC could make grant payments to various school boards in Saskatchewan with respect to capital projects. The Department did not have any support for this grant payment other than an authorizing Order-in-Council. My representatives observed that the Order-in-Council did not specify the school boards to whom SPMC in turn was supposed to make grants.

20.09 Responsibility for all matters relating to elementary and secondary education in the Province are assigned to the Minister of Education under The Education Act and The Department of Education Act, although the latter Act empowers the Minister to enter into agreements with others for any purpose related to the exercise of any of his powers or the carrying out of any of the duties imposed on him. Accordingly, capital grants to school boards have traditionally been paid under the authority of The Education Act in accordance with the criteria established by regulations issued under that Act out of the monies appropriated to the Department of Education by the Legislature for that purpose. The Department of Supply and Services made the grant payment to SPMC without an agreement with the Minister of Education relative to carrying out duties imposed on him and, accordingly, without knowing how the grants would be calculated for each school board

and whether the criteria set by the Department of Education for such grants would be met.

20.10 In addition, by utilizing authority under The Public Works Act to pay SPMC and having regard to the broad scope of grant making powers which SPMC was accorded under its authorizing Order-in-Council, it is not clear whether any criteria were effectively in force to govern the payments to be made by SPMC, but in any case, no evidence was available to indicate that criteria under The Education Act would be applied by SPMC or if such criteria were to be applied that the proper application of criteria would be subject to oversight review by public officials on behalf of the responsible Minister.

20.11 In summary, I am concerned that these actions have reduced the information available to the Members of the Legislative Assembly and thereby reduced the ability of the Members of the Legislative Assembly to exact a comparable degree of accountability on an ongoing basis.

20.12 The following information is no longer disclosed:

1) The Public Accounts no longer disclose the School Divisions who received capital grants during the fiscal year and the amounts each Board received, and

2) The Estimates no longer disclose the capital grants for School Divisions and accordingly the Members do not have the opportunity to specifically appropriate the sum necessary for new capital grants.

RENTAL PAYMENTS

20.13 Section 27 and 36 of The Public Works Act reads as follows:

> *"27. The minister may enter into any contract or agreement that may be deemed necessary or advisable for the purpose of carrying out the provisions of this Act, but no deed, contract, document or writing in respect of any matter under the control or direction of the minister shall be binding on the department, unless signed by the minister or by an official of the department who has been authorized in writing by the minister to act in his behalf.*
>
> *36. All accounts for expenditures under this Act shall be paid by the Minister of Finance upon the production of proper vouchers by the department."*

20.14 Pursuant to Section 27, the Minister of Supply and Services authorized a delegation of authority on July 29, 1985, according to which any lease or lease/purchase of building space or property (including agreements for amortization of leasehold improvements costs and furniture leases related to building space or property) must be in writing and approved by the officials authorized by the Minister.

20.15 In March, 1987, the Department of Supply and Services paid a total of $7,638,403 to SPMC for "rental charges resulting from construction work in progress financed from 1985 - 1987". Prior to August 12, 1987, my representatives asked to examine a copy of the contract between the Department of Supply and Services and SPMC to ensure that it was approved in accordance with the Minister's authorization or delegated authority. At that time my representatives were not provided with copies of such contracts and management would not confirm whether a written contract existed for this payment. After several attempts to obtain a copy of the contract, at a meeting on February 17, 1988, my representatives were informed that no such contracts existed. They were also informed that these payments were made in accordance with the accommodations manual issued by SPMC which, in the opinion of management of the Department, was sufficient support for these payments although supplementary information from SPMC records regarding costs incurred in completing work in progress was provided. My representatives were further informed that the rental charges were in respect of construction and renovation projects in progress at March 31, 1986, which were transferred over to SPMC for completion on that date in accordance with the terms of contract for sale of the Department's real estate portfolio to SPMC.

20.16 Subsequent to the meeting of February 17, 1988, my representatives reviewed the documents and information provided by management including the contract for sale of real estate properties to SPMC, the accommodation manual and the memoranda from SPMC requesting remittance for rental charges, which were attached to the payment voucher as support for these payments. As a result of this review my representatives observed the following:

a) The accommodation manual which the Department relied on as support for payments was not in effect at the time when the rental payments were made.

b) The agreements for sale of real estate properties which were not completed at March 31, 1986 included a method of price determination but the terms of payments have not yet been finalized. The agreements for sale did not make provision for any rental payments in the period prior to the accommodation manual taking effect on March 31, 1987.

c) SPMC's request for one particular payment included in a payment voucher stated rental charges resulting from construction work in progress Prince Albert $2,079,430. Another request for rental charges resulting from construction work in progress stated 2340-50 Albert Street $2,082,802. My representatives requested a further explanation of these payments but were unable to obtain such information. Management indicated that they had other priorities to deal with and that the requested information would be made available as soon as possible. At April 30, 1988, this information has not yet been provided. Accordingly, I am unable to complete my examination and thus am unable to completely fulfill my reporting responsibilities pursuant to The Provincial Auditor Act.

d) According to Section 4 of the accommodation manual, landlord maintenance and new construction/acquisition jobs are the responsibility of SPMC. However, there were a number of charges supported by the supplementary SPMC data received which indicated full recovery of the cost of landlord maintenance jobs and, in some cases, new construction/acquisition jobs, was being assessed.

20.17 Based on the above observations, it is my opinion that rental payment vouchers produced for the SPMC payments did not provide adequate support for the payments made and accordingly did not comply with Section 36 of The Public Works Act cited in paragraph 20.13 above. Accordingly, these payments were not properly vouchered or certified.

MISCELLANEOUS CONTRACTUAL PAYMENTS

20.18 Subsections 9(1)(a) and 9(2) of The Department of Supply and Services Act read as follows:

"9(1) In carrying out his duties under section 8, the minister may:

(a) subject to subsection (2), enter into agreements on behalf of the Government of Saskatchewan with:

(i) the government of any other province or territory of Canada, or a minister, agent or official of any such government; or

(ii) any person, agency, organization, association, institution or body inside or outside Saskatchewan;

for any purpose related to the exercise of any of the powers or the carrying out of any of the duties imposed upon him by this Act or for any purpose that may be prescribed in the regulations;

(2) The minister shall obtain the approval of the Lieutenant Governor in Council before entering into any agreement on behalf of the Government of Saskatchewan under clause (1)(a), other than an agreement with respect to carrying out the powers conferred in sections 6 and 7, whereby the Government of Saskatchewan is liable to make expenditures in excess of $10,000."

20.19 On February 28, 1987, all employees of the Department of Supply and Services resigned from their positions in the Department and accepted employment with SPMC. In order that the work of the Department might continue, the Department entered into a verbal agreement with SPMC for personnel services for the month of March, 1987. The amount paid under this agreement was $2,377,292.47 which, according to the management of the Department, represents SPMC's entire payroll cost for the month of March, 1987.

20.20 The Department did not obtain the approval of the Lieutenant Governor in Council, as required by section 9(2) cited above, for this expenditure. Also as there was no written agreement or other support for this payment, it was not possible for my representatives to determine whether the payment of $2,377,292.47 represents a proper charge to the Department's appropriation.

SPECIAL PROJECTS FUND - CAPITAL EXPENDITURE

20.21 The capital expenditures from the Special Projects Fund are incurred in accordance with The Public Works Act and all construction contracts and amendments thereto have to be approved in accordance with the delegation of authority authorized by the Minister of Supply and Services pursuant to section 27 of The Public Works Act as set out in paragraph 20.13. During the audit my representatives noted that certain amendments to a contract for construction of the Tourist Information Centre in Langenburg were not approved in accordance with the authorized delegation of authority.

20.22 As these amendments to the contract were not properly authorized, any vouchers produced for payment in excess of the appropriately authorized contract amount did not constitute proper vouchers pursuant to section 36 of The Public Works Act.

20.23 Accordingly, all such payments were not properly vouchered or certified.

RECOVERY OF MAINTENANCE COSTS

20.24 On March 31, 1987, the Department initiated a voucher for $71,100 to recover from the Department of Justice certain building maintenance costs incurred for Saskatchewan Hospital, North Battleford for the 1986/87 fiscal year. As the actual amounts for the year had not been ascertained at the date of the voucher, the amount recovered was estimated, based on the 1985/86 recovery. However, as the Department of Justice did not have sufficient funds in the appropriation, the voucher was reduced to $53,279 by the Comptroller, Department of Finance.

20.25 My representatives were informed that the reason for this recovery was to allocate certain maintenance costs to the Department of Justice for the use of the hospital as a Juvenile Correctional Centre by that Department and that the treatment was consistent with prior years when the Department of Health was responsible for the maintenance of this hospital and allocated similar costs to the Department of Justice.

20.26 My representatives were further informed that there was no written agreement between the two Departments for the allocation of maintenance costs. Accordingly, it was not possible for my representatives to determine whether the amount allocated represents a fair and reasonable cost of the services rendered.

SUPPLY AGENCY REVOLVING FUND

20.27 Officials of the Department are responsible to administer the Supply Agency Revolving Fund.

20.28 One of the major functions of the Revolving Fund is to acquire word processing and other computer equipment and to rent this equipment to other departments and agencies of the government.

Management Control Deficiency

20.29 Essential to an appropriate system of management controls to safeguard public property is a record of the assets owned by an organization and periodic physical examinations of these assets to ensure that they continue to exist.

20.30 My representatives observed that there was no physical count of the word processing and computer equipment during the year for the purposes of comparing the count to the record of equipment on hand.

20.31 The absence of this control procedure could result in any misappropriation of equipment not being detected in a timely manner.

Non-Compliance With Authorities

20.32 As stated earlier, one of the major activities of the Revolving Fund is the leasing of word processing and other computer equipment to government departments and agencies. The standard lease term is four years which is generally estimated to be equivalent to the economic life of the equipment. Treasury Board authorized the Department to recover the full cost of the leased equipment during its initial lease term plus an additional ten percent of the equipment's cost to cover administrative expenses associated with leasing the equipment. For lease renewals, if any, Treasury Board authorized the Department to recover their leasing costs by charging a lease fee of ten percent of the equipment's original cost over the renewal term.

20.33 During the examination, my representatives noted that many lessees opted to prepay all, or a portion of their initial lease payments. In these situations, the Department did not enter into any initial lease term contracts with the lessees. Instead, they immediately entered into contracts which were similar to those obtained for lease renewals. The terms of these contracts did not refer to the prepaid amounts but required the lessees to begin paying monthly rent on the prepaid leased equipment. The rent was set at ten percent of the cost of the prepaid equipment and was spread over a lease term of twelve months.

20.34 The Department's actions have affected reported revenue. For those lessees who opted for lease prepayments the effect of these contractual arrangements are:

(1) the initial lease term of the prepaid leased equipment is not defined;

(2) the lease prepayments are not supported by any contract; and

(3) the Department received the ten percent of the equipment's cost which Treasury Board had authorized to cover the Department's cost of leasing the equipment over its expected economic life and in addition is receiving an additional ten percent of the equipment's cost which is equivalent to the lease rates the Department was authorized to charge during subsequent lease renewal terms.

20.35 It is my opinion that:

(1) The Department's practice of charging lease renewal rental fees during the initial lease period constitutes revenue being assessed and collected without proper authority.

(2) The Department's prepaid lease arrangements with the lessees are inadequately documented and supported and as a consequence the Department does not have a verifiable lease term over which it can recognize the prepaid lease income. This could result in the Department not being able to adequately substantiate the amount of lease income that it records on these leases in future years.

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DEPARTMENT OF TOURISM AND SMALL BUSINESS

21.00 The Department Tourism and Small Business is responsible to administer the Northern Saskatchewan Economic Development Revolving Fund.

21.01 A review and evaluation of the management control systems for the administration of this Revolving Fund disclosed the following deficiencies in the rules and procedures.

21.02 Essential to an appropriate system of management controls is that all transactions of an enterprise should be authorized. Normally the requirement of transaction authorization is met by one person authorizing the initiation of a transaction and a second person approving the completion of a transaction.

21.03 During the course of the examination my representatives observed that management responsible for the Revolving Fund used the service of a private accounting firm, who was under contract to perform a variety of accounting functions, and to prepare adjustments to loan balances arising from loan rewrites. It was noted that many of the adjustments were not subsequently approved by the management responsible for the Revolving Fund. While management can delegate the preparation of loan adjustments, they remain responsible to ensure that all adjustments are proper.

21.04 This weakness allows the possibility of incorrect loan adjustments.

21.05 Also, essential to an appropriate system of management controls are rules and procedures that enable the preparation of accurate financial statements.

21.06 Accurate financial information is necessary in order to assess performance.

21.07 One of the key elements affecting the accuracy of the financial statements for the Revolving Fund is the determination of the value of the loan portfolio.

21.08 Officials of the Department utilize a computer system to assist in the valuation of the loan portfolio. This system accumulates all overdue principal balances together with the number of months that a loan is in arrears.

21.09 The arrears as determined above are the key factor that determines the percentage of any unsecured loan balance that will be included in the allowance for doubtful accounts.

21.10 My representatives determined that the computer records produced by the system did not differentiate between a receipt from a loan recipient to pay arrears or a receipt arising from the sale of repossessed assets.

21.11 This deficiency in the computer records results in receipts from repossessed assets reducing arrears which has the result of affecting the correct determination of the allowance for doubtful accounts.

21.12 Officials of the Department recognized this deficiency in the computer loan system and have established manual rules and procedures to compensate for the deficiency.

21.13 My representatives observed several instances where the manual rules and procedures were not followed. This failure to follow established rules and procedures resulted in an incorrect determination of the allowance for doubtful accounts.

22

DEPARTMENT OF URBAN AFFAIRS

22.00 The Department of Urban Affairs administered The Senior Citizens' Heritage Program Act.

22.01 Section 5 of The Senior Citizens' Heritage Program Act allows the minister to make grants to eligible applicants in amounts based upon the level of the applicant's annual income and housing status. During the course of the examination, it was noted that grants were disbursed based upon the level of the applicant's annual income and housing status as stated upon the application without verification.

22.02 On a post-payment basis, management established procedures to verify the applicants' annual income and housing status. From the sample selected for verification, management determined that approximately 47% of these applications did not have sufficient information to verify the applicants' annual income.

22.03 In my opinion, management has not implemented appropriate procedures to ensure that payments are in compliance with The Senior Citizens' Heritage Program Act. As a result, there is no assurance that only eligible recipients received benefits under the program.

22.04 This Department also administers the Northern Revenue Sharing Trust Account.

22.05 In my 1986 annual report I reported that the 1985 financial statements for the Northern Revenue Sharing Trust Account were not yet completed at the date of that report. I advised that I would report any reservation in my auditor's report in my 1987 annual report.

22.06 My auditor's reports for 1985 and 1986 contained reservations.

22.07 These reports read as follows:

1986

"I have examined the operating fund balance sheet and the capital fund balance sheet of the Northern Revenue Sharing Trust Account as at December 31, 1986 and the statements of operating fund revenue, expenditure and fund balance, capital fund continuity of equity in capital fund assets and capital fund revenue and expenditure for the year then ended. My examination was made in accordance with generally accepted

auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances, except as explained in the following paragraphs.

Note 6 to the financial statements states that the financial operations of the operating fund of the hospital in the Northern Settlement of Uranium City are not consolidated with these financial statements since separate financial statements are prepared and reported upon in accordance with the requirements of Health and Welfare Canada. In my opinion, the preparation of separate financial statements is not, of itself, an acceptable reason for not including the results of the hospital operations in the financial statements. Legal opinions are inconclusive as to the appropriate treatment to be accorded to the hospital operations and the net working assets of the hospital in these financial statements because of certain questions regarding facts which it appears are not readily ascertainable. Since it was impracticable to achieve a resolution of this matter at the date of finalization of these financial statements, I was unable to obtain sufficient appropriate audit evidence to satisfy myself that the exclusion of the hospital operations and net working assets from these financial statements is appropriate. Accordingly, I am unable to determine whether an adjustment is required to the Operating Fund Balance Sheet and Statement of Revenue, Expenditure and Fund Balance to appropriately account for the hospital operations conducted in the Northern Settlement of Uranium City in these financial statements.

Note 7 to the financial statements states that as a consequence of the Regulations establishing the Uranium City School Division No. 115, capital assets having a book value of $7,446,331 have been transferred to the School Division and removed from the accounts "Capital Assets" and "Equity in Capital Assets" in the Capital Fund Balance Sheet. Conflicting legal opinions have left some uncertainty as to whether these capital assets should have been reflected as assets of the Trust Account when the status of Uranium City was reverted to a Northern Settlement on October 1, 1984. Since the Regulations did not resolve the legal uncertainties which existed prior to September 24, 1986, I am unable to obtain sufficient appropriate audit evidence to satisfy myself that Note 7 properly reflects the consequences of the Regulations establishing the Uranium City School Division No. 115 as they affect the recorded transactions of the Trust Account in 1986 in the Statement of Capital Fund Continuity of Equity in Fixed Assets.

In my opinion, except for the effect of adjustments, if any, which I may have determined to be necessary had I been able to obtain sufficient information with respect to the matters described in the preceding paragraphs, these financial statements present fairly the financial position of the Trust Account as at December 31, 1986 and the results of its operations and the changes in its financial position for the year then

ended in accordance with the accounting principles disclosed in Note 2 to the financial statements, applied on a basis consistent with that of the previous year."

1985

"I have examined the balance sheets of the Northern Revenue Sharing Trust Account as at December 31, 1985 and the statements of operating fund revenue, expenditure and fund balance and capital fund revenue and expenditure for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances, except as explained in the following paragraphs.

Note 6 to the financial statements states that the financial operations of the operating fund of the hospital in the Northern Settlement of Uranium City are not consolidated with these financial statements since separate financial statements are prepared and reported upon in accordance with the requirements of Health and Welfare Canada. In my opinion, the preparation of separate financial statements is not, of itself, an acceptable reason for not including the operating fund of the hospital in the financial statements. Conflicting legal opinions have left some uncertainty as to the appropriate treatment to be accorded to the hospital operations and the net working assets of the hospital in these financial statements. Since a resolution of this legal question was not achieved at the date of finalization of these financial statements, I was unable to obtain sufficient appropriate audit evidence to satisfy myself that the exclusion of the hospital operations and net working assets from these financial statements is appropriate. Accordingly, I am unable to determine whether an adjustment is required to the Operating Fund Balance Sheet and Statement of Revenue, Expenditure and Fund Balance to fully account for the hospital operations conducted in Uranium City in these financial statements.

As outlined in note 6 to the financial statements, the school facilities in Uranium City have been reflected in the Capital Fund Balance Sheet of the Trust Account based on the premise that ownership of these assets rests with the Trust Account on behalf of the Northern Settlement of Uranium City. Conflicting legal opinions have left some uncertainty that this is the appropriate treatment to be accorded to the school facilities. Since a resolution of this legal question was not achieved at the date of finalization of these financial statements, I was unable to obtain sufficient appropriate audit evidence to satisfy myself that the inclusion of the school facilities in these financial statements is appropriate. Accordingly, I am unable to determine whether an adjustment is required to the Capital Fund Balance Sheet to remove the recorded values of the school facilities in Uraniun City presently reflected therein in the amount of $7,446,331. In addition, I am unable to determine if note 8 properly reflects the consequences of the Regulations establishing the Uranium City School Division No. 115 as they affect the reported transactions of the Trust Account in 1986.

In view of the possible material effects on the financial statements of the matters described in the preceding paragraphs, I am unable to express an opinion as to whether these financial statements are presented fairly in accordance with an appropriate disclosed basis of accounting."

23

LIQUOR LICENSING COMMISSION

23.00 During the course of the audit my representatives noted the following payments which were made without adequate authority.

23.01 Section 4 of The Liquor Licensing Act states: *"The Lieutenant Governor in Council shall appoint the members of the commission and fix their respective salaries or remuneration."*

23.02 My representatives determined that at March 31, 1987 there was not a current Order-in-Council for appointment of members to the Commission. The last Order-in-Council (718/85) for appointment of members to the Commission contained a clause which provided for the expiry of appointments to the Commission on January 1, 1987. Order-in-Council 370/87 dated April 22, 1987 appointed members to the Commission and fixed their respective salaries and remuneration. Although this Order-in-Council contained clauses to approve remuneration and reimbursement of expenses to Commission members retroactive to January 1, 1987, it is my opinion that payments of approximately $19,000 made from January 1, 1987 to March 31, 1987, to the Commission members were without adequate statutory authority.

MEADOW LAKE SAWMILL LTD.

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24

MEADOW LAKE SAWMILL LTD.

24.00 Meadow Lake Sawmill Ltd. is a subsidiary of Crown Investments Corporation of Saskatchewan.

FINANCIAL REPORTING

24.01 When the government forms or acquires a company using public money, the government assumes a commensurate level of accountability to the public for the operation of that company.

24.02 The fact that Meadow Lake Sawmill Ltd. is public money means that the government must accept and fulfill certain obligations necessary to protect the public interest.

24.03 In order for the Legislative Assembly to have sufficient information to hold the executive government accountable for the administration of public money, there is a fundamental obligation on the executive government to provide timely, full and fair public disclosure regarding its administration of public money.

24.04 Financial statements for Meadow Lake Sawmill Ltd. have not been tabled in the Legislative Assembly. As a result, the government is not fully accountable to the Members of the Legislative Assembly for its administration of this company.

24.05 This matter was reported in past years and was considered by the Standing Committee on Public Accounts.

24.06 The Committee in its report of November 3, 1987, which was concurred in by the Legislative Assembly, recommended:

> *"That the Committee recommend that the government consider preparing legislation to ensure that the duly audited financial statements for Crown agencies established pursuant to The Business Corporation Act are tabled in the Legislative Assembly, providing that the competitive position of the Crown Corporation is not prejudiced."*

BUDGETARY CONTROLS

24.07 A study and evaluation of the management control systems disclosed the following conditions which resulted in more than a relatively low risk that errors or fraud in amounts that would be material may occur and not be detected in a timely period.

24.08 Essential in an appropriate system of management controls are control procedures which permit management to review, analyze and control the operations of the organization as well as procedures for the Board of Directors to monitor the performance of the management. Key elements of such a system are budgets and an effective interim financial reporting system so that management and the Board of Directors have financial information to assess performance and adjust operations as necessary to meet targets established in the budget.

24.09 During the course of the audit it was observed that an appropriate budget process was not in place with the result that financial information presented to management could be misleading and this may not be detected in a timely manner.

DOCUMENTATION CONTROLS

24.10 Also inherent in an appropriate system of management controls is the formal communication of policy and delegation of authority from senior management to the appropriate employees and procedures to ensure that there is compliance with the policies and delegation.

24.11 Further, a lack of segregation of duties, resulting from limitations of staff size, weakens the accounting system and the system of internal controls thus requiring the active involvement of management in the supervision of the procedures required to be followed by employees.

24.12 During the course of the audit it was observed that there was a lack of segregation of duties as discussed in paragraphs 24.14 to 24.17 and that management at the sawmill had not been active in the design and supervision of the systems. As well, an accounting and internal control system policy and procedures manual did not exist.

24.13 Lack of management involvement in the design and supervision of the accounting system and the system of internal controls greatly increases the risk that a material error or fraud could occur.

SEGREGATION OF DUTIES

24.14 Also essential to an appropriate system of management controls is an organizational plan to ensure that there is a segregation of duties among employees, to ensure that no one person is responsible for the authorization, record keeping and the custody of assets.

24.15 This segregation is necessary to ensure that no one person is in a position to misappropriate assets and alter the records to conceal the misappropriation.

24.16 During the course of the examination it was observed that the same person was responsible for recording wood receipts, for accepting delivery of wood receipts and for recording contractors payroll related to wood receipts. Also, these records were not reviewed on a timely basis.

24.17 As a result, the possibility exists that funds may be misappropriated without ready detection. Concealment of any misappropriation would be facilitated because not all of these records were reviewed by a member of management as previously discussed in paragraphs 24.10 to 24.12.

25

MUNICIPAL EMPLOYEES' SUPERANNUATION COMMISSION

25.00 During the course of the examination of the accounts of the Commission my representatives observed the following transactions which were without apparent authority.

25.01 Pursuant to subsection 57(d) of The Municipal Employees' Superannuation Act the Lieutenant Governor in Council made regulations authorizing the payment of additional allowances to superannuates as prescribed in Orders-in-Council 1061/80, 1120/82 and 997/84. These regulations specifically authorized the payment of additional allowances to superannuates or surviving spouses receiving allowances under the Act. My representatives observed that the Commission had disbursed additional allowances to superannuates who were receiving annuities from the Commission under provisions of the former plan. In my opinion, the regulations authorized additional payments only to those superannuates who were receiving regular allowances out of the Fund. Therefore, the additional allowances paid, to individuals who were receiving annuities from the Commission or insurance companies are, in my opinion, payments without authority.

25.02 This matter was reported in my 1986 annual report.

25.03 Section 43 of The Municipal Employees' Superannuation Act states that deferred or immediate life annuities may be paid out of the Fund and the amounts of such annuities will be based on tables and rates approved by the Commission. During the course of the examination, management was unable to provide my representatives with any evidence that the tables and rates used were approved by the Commission.

25.04 Also, my representatives noted that in several instances, for members retiring before or after the age of sixty-five years, the annuity factor tables were used incorrectly in determining the funding for pensions under the defined benefit plan. This resulted in errors in the amount of excess funds transferred to the money accumulation plan which were utilized to purchase deferred or immediate life annuities for the retiring employees. In my opinion, since the funds available for annuities were not properly determined the Commission has not complied with the provisions of the Act.

NORTHERN FOREST OPERATIONS LTD.

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NORTHERN FOREST OPERATIONS LTD.

26.00 Northern Forest Operations Ltd. is a subsidiary of Saskatchewan Forest Products Corporation.

FINANCIAL REPORTING

26.01 When the government forms or acquires a company using public money, the government assumes a commensurate level of accountability to the public for the operation of that company.

26.02 The fact that Northern Forest Operations Ltd. is public money means that the government must accept and fulfill certain obligations necessary to protect the public interest.

26.03 In order for the Legislative Assembly to have sufficient information to hold the executive government accountable for the administration of public money, there is a fundamental obligation on the executive government to provide timely, full and fair public disclosure regarding its administration of public money.

26.04 Financial statements for Northern Forest Operations Ltd. have not been tabled in the Legislative Assembly. As a result of this, the government is not fully accountable to the Members of the Legislative Assembly for its administration of this company.

26.05 This matter was reported in past years and was considered by the Standing Committee on Public Accounts.

26.06 The Committee in its report of November 3, 1987, which was concurred in by the Legislative Assembly, recommended:

> *"That the Committee recommend that the government consider preparing legislation to ensure that the duly audited financial statements for Crown agencies established pursuant to The Business Corporation Act are tabled in the Legislative Assembly, providing that the competitive position of the Crown Corporation is not prejudiced."*

BUDGETARY CONTROLS

26.07 A study and evaluation of the management control systems disclosed the following conditions which resulted in more than a relatively low risk that errors or fraud in amounts that would be material may occur and not be detected in a timely period.

26.08 Essential in an appropriate system of management controls are control procedures which permit management to review, analyze and control the operations of the organization as well as procedures for the Board of Directors to monitor the performance of the management. Key elements of such a system are budgets and an effective interim financial reporting system so that management and the Board of Directors have financial information to assess performance and adjust operations as necessary to meet targets established in the budget.

26.09 During the course of the audit it was observed that no budget process was in place and there was no documentation of the review of the monthly financial statements by the Board.

SEGREGATION OF DUTIES

26.10 Also essential to an appropriate system of management controls is an organizational plan to ensure that there is a segregation of duties among employees, to ensure that no one person is responsible for the authorization, record keeping and the custody of assets.

26.11 This segregation is necessary to ensure that no one person is in a position to misappropriate assets and alter the records to conceal the misappropriation.

26.12 During the course of the audit it was observed that there was an inadequate segregation of duties over the cash receipts and the recording of revenue.

26.13 It was also observed that there was an inadequate segregation of duties over cash disbursements and the recording of the accounts payable.

INVENTORY

26.14 Also important to an appropriate system of management controls are rules and procedures that ensure that transactions are promptly recorded in the correct amount which would include periodic balancing and reconciling procedures to ensure the accuracy and reliability of the accounting records.

26.15 The comparison of logs cut with lumber sawn, planed and sold was inadequate.

26.16 An important control over sawmill operations is to compare the footage of logs put into production with lumber produced and lumber put into the planer with planed lumber produced. Such a comparison enables the calculation of "over-runs and under-runs", which should be compared with pre-established estimates for each process in each mill. Officials of the company have not established estimates for each process to allow for an appropriate evaluation of "over-runs and under-runs".

26.17 Also lumber produced should be reconciled to lumber sold, or in inventory, to determine shortages in the yard calculations. This comparison was only done at year end and not throughout the year.

26.18 If the comparisons discussed in paragraphs 26.15 to 26.17 are not performed, there could be undetected shortages of lumber. These might be caused by theft, sales not being charged to customers, sawing problems, poor quality logs, etc.

ACCOUNTS RECEIVABLE

26.19 It was also observed that officials of the company did not reconcile the accounts receivable ledger to the general ledger.

26.20 The absence of this control procedure together with the inadequate segregation of duties discussed in paragraph 26.12 increases the risk that errors or fraud may occur and not be detected on a timely basis.

FIXED ASSETS

26.21 In order to safeguard and control public property it is necessary to have a record of the assets for which an organization is responsible.

26.22 It was observed that there was not a detailed fixed asset record maintained.

26.23 As a result of this weakness, fixed assets may be lost or misappropriated without ready detection.

27

OFFICE OF THE EXECUTIVE COUNCIL

27.00 Important elements in any system of management controls are the administrative and procedural controls established by management over the expenditures to be made by the organization. It is the responsibility of management on entering into contractual obligations to ensure that the interests of the organization are well protected within the terms of any contracts signed by management, particularly in contracts which require payment in advance of the receipt of goods or services as was the case described herein.

27.01 For government departments, guidance is provided by the Accounting and Reporting Policy Manual and the Financial Administration Manual. Section 552-1 of the Financial Administration Manual sets out the minimum terms to be covered when a formal contract is drafted. These minimum terms include:

> *"(iii) A detailed description of the services.*
> *(iv) A detailed description of the goods.*
> *(v) The time period within which the goods and services are provided.*
> *(vi) The price for the goods and services.*
> *(viii) The terms of payment (i.e. progress payments completion of certain phases, after completion, upon acceptance of a report, etc.)"*

27.02 Further terms which would be required in order to safeguard public money would include terms to protect the department in the event that the goods or services are not received, or where there is a delay in obtaining goods or services, or in the event that the goods or services received were not up to the standard which the department required.

27.03 During the month of March, 1987, the Executive Council entered into a contract with the Saskatchewan Property Management Corporation (SPMC) and made an advance payment of $250,000 to SPMC "to acquire Informatics Technology". Management officials have indicated to my representatives that the goods or services paid for were not received by March 31, 1987.

27.04 An examination of the contract for Informatics Technology by my representatives revealed that the contract terms did not provide:

a) a detailed description of goods and services that were to be provided;
b) a time period within which the goods and services were to be provided;

c) the price for the goods and services to be provided;
d) sufficient detail on the terms of payment for the services and goods to be provided;
e) terms to recover the advance payment in the event that goods and services were not provided, or in the case of delays in providing these goods and services or in the event that the goods and services received were not up to the standard which the department required.

27.05 In my opinion, there are inadequate management controls over contractual obligations in order to safeguard public money. Further, the terms of the contract entered into with SPMC do not meet the minimum requirements of the Financial Administration Manual and the payment of $250,000 to SPMC was not properly vouchered and certified.

PROVINCIAL SECRETARY

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28

PROVINCIAL SECRETARY

MEMBERS OF THE LEGISLATIVE ASSEMBLY SUPERANNUATION FUND

28.00 The Members of the Legislative Assembly Superannuation Fund operates under The Members of the Legislative Assembly Superannuation Act, 1979.

28.01 The Act requires contributions from members and matching contributions to be paid into the Fund to provide allowances for superannuates.

28.02 The Fund was administered by the officers of the Public Employees Benefits Agency, Department of Revenue and Financial Services.

Management Control Deficiencies

28.03 Essential in an appropriate system of management controls are control procedures which permit management to review analyze and control public money. Key elements of such a system are an effective interim financial reporting system to assess performance and adjust operations as necessary.

28.04 During the course of the audit it was noted that the accounting records were not being maintained on a timely basis with the result that there were significant delays in the preparation of monthly information.

Non-Compliance With Authorities

28.05 This failure to maintain records on a timely basis also contributed to the following instance of non-compliance with authorities:

28.06 Section 42 of the Members of the Legislative Assembly Superannuation Act, 1979 reads as follows:

> *"42(1) The minister shall, in each fiscal year, in accordance with The Tabling of Documents Act, submit to the Lieutenant Governor in Council an annual report on the administration of this Act and shall include therein:*
>
> *a) the balance sheet for that fiscal year;*
>
> *b) a statement of the receipts of the fund during that fiscal year, classified as to source;*
>
> *c) a statement of the amounts paid by way of allowances;*

d) a statement of the number of contributors;

e) a statement of the number of persons receiving annual allowances;

f) with respect to any investments made under section 3, a statement of all securities in which moneys of the fund have been invested, a statement of any such securities that have been so acquired during that fiscal year and a statement of all dispositions of such securities during that period;

g) any other information that the Lieutenant Governor in Council may prescribe.

(2) The minister shall, in accordance with The Tabling of Documents Act, lay before the Legislative Assembly the report mentioned in subsection (1)"

28.07 As at April 14, 1988, management responsible for the administration of the Fund have not provided me with the financial statements for the years ended March 31, 1986 and March 31, 1987 for audit nor has the Minister tabled the annual report in the Legislative Assembly.

28.08 In addition to the failure to table financial statements in accordance with the Act, my representatives observed the following additional instance of non-compliance with authorities:

28.09 Section 26.1 of The Members of The Legislative Assembly Superannuation Act, 1979 states:

"Where a person who was a member and:

a) is entitled to or in receipt of a supplementary monthly allowance pursuant to section 25, 25.1 or 26; or

b) was entitled to a supplementary monthly allowance pursuant to section 25, 25.1 or 26 that has been discontinued under 37.1;

dies leaving a spouse, 60% of the supplementary monthly allowances that he was receiving or that he was or would have been entitled to pursuant to sections 25, 25.1 and 26 shall be paid to his spouse for life."

28.10 When a member who has been receiving the annual allowance and the supplementary allowance dies, officials have been calculating the pension to a spouse at the 60% rate of both the annual (section 19) and the supplementary allowance (section 26.1). In each of the years following the death of the member officials have been granting the new annual supplementary allowances to the spouse as provided by section 25, 25.1 and 26 and no reduction to 60% has been made.

28.11 It is my view that the 60% rule contained in section 26.1 would apply to the supplementary allowances granted to the deceased member's spouse

subsequent to the date of death of the member as well as before his death. Consequently, the failure to reduce all supplementary allowances to spouses subsequent to the date of death to 60% means that all new supplementary allowances granted subsequent to the date of death of a member exceed the amounts that would be permitted under the current legislation.

28.12 This matter was reported in my 1985 annual report. The matter was considered by the Standing Committee on Public Accounts on April 24, 1986 and the recommendation of the Committee was delayed pending the receipt of further information and further consideration. The information requested was a comparison of the retiring allowances granted to surviving spouses for all Saskatchewan public sector plans.

28.13 The information comparing retiring allowances for Saskatchewan public sector plans was provided to the Standing Committee on Public Accounts May 1, 1986 as research document #E14/86.

28.14 The Committee has not as yet made a recommendation on this matter.

29

SASKATCHEWAN COMPUTER UTILITY CORPORATION (SASKCOMP)

29.00 Each government agency has a responsibility to ensure that its transactions are properly authorized by management and that they are in accordance with relevant legislation.

29.01 During the course of the examination my representatives made the following observations regarding unauthorized transactions:

UNAUTHORIZED BORROWINGS

29.02 Section 13 of The Saskatchewan Computer Utility Corporation Act states:

> *"13. Subject to the approval of the Lieutenant Governor in Council and within the borrowing limitation prescribed by section 16, the corporation may also from time to time borrow money by way of temporary loans from any chartered bank or from any person or corporation in such sums, upon such terms, for such purposes and upon such conditions as the corporation may determine, by way of bank overdraft or line of credit, or in such other manner as the corporation may determine; and any cheques, promissory notes or other instruments that may be necessary or desirable in connection with the borrowing of money and the obtaining of advances by way of temporary loans may be executed in such manner as the corporation may determine.*

29.03 Pursuant to this section, the limit for such borrowing was set at one million dollars by Order-in-Council 15/83.

29.04 On several occasions during April, 1986, bank overdrafts in excess of the $1 million limit were incurred; the largest of which was $1,222,840 on April 11, 1986.

OVERPAYMENT TO SUPPLIER

29.05 A cheque for $333,178 was erroneously issued in U.S. funds rather than in Canadian funds. As a result, a supplier was overpaid by $128,218. SaskComp recovered $126,774 of this amount. The difference of $1,444, representing bank service charges for exchanging funds, was not recovered.

UNCOLLECTIBLE ACCOUNT

29.06 During 1986, SaskComp continued to provide services to one of its customers after that customer's account was seriously in arrears and the customer had put a "Stop Payment" order on one of its cheques to SaskComp.

29.07 The account has since become uncollectible. As a result, SaskComp did not collect approximately $29,000 in revenue, $15,000 of which was related to services rendered after the customer had made the "Stop Payment" order.

30

SASKATCHEWAN CROP INSURANCE CORPORATION

DOCUMENTATION DEFICIENCIES

30.00 Inherent in an appropriate system of management controls is the formal communication of policy and delegation of authority from senior management to the appropriate employees and procedures to ensure that there is compliance with the policy and delegation.

30.01 Documentation of accounting policies and procedures impacts on an organizations ability to produce timely financial reports.

30.02 During the course of the examination, my representatives observed that the Corporation's accounting policies and procedures manuals were not current and complete.

30.03 This incomplete and non-current documentation of accounting policies and procedures coupled with staff turnover caused by the relocation of the head office to Melville increases the risk that financial reports may not be prepared on a timely basis.

NON-COMPLIANCE WITH AUTHORITIES

30.04 Further in my opinion, the rules and procedures of the Corporation were not adequate to ensure that transactions were executed in accordance with statutory authority and corporate policy and my representatives made the following observations.

30.05 My representatives noted that $11,855,000 was appropriated by the Legislature and received by the Corporation in the fiscal year ending March 31, 1987 for administration of the Corporation and that $10,755,000 was originally recorded as "Province of Saskatchewan appropriation" in the Corporation's financial statements. The difference of $1.1 million resulted from the Corporation transferring these funds appropriated for administration (Subvote 46-01) to a separate entity called the Waterfowl Crop Damage Compensation Program (subvote 46-02) without obtaining the approval of the Minister of Finance as required by Section 32 of The Department of Finance Act, 1983. This transfer has subsequently been reversed.

30.06 Officials of the Corporation administer the Canada-Saskatchewan Waterfowl Crop Damage Compensation Program.

30.07 Clause 5(c) of the Federal/Provincial Canada-Saskatchewan Waterfowl Crop Damage Agreement dated March 21, 1984 and subsequently

amended March 30, 1987 states that: *"Funds for such crop damage will be obtained from funds appropriated for the year in which the damage occurred."*

30.08 My representatives noted that crop damage claims for the year ending March 31, 1987 totalled $6,658,769.42. The funds appropriated by Saskatchewan for the year ending March 31, 1987 for payments to Canada-Saskatchewan Waterfowl Crop Damage Compensation Program Fund (subvote 46-02) totalled $5,300,000. Therefore, the crop damage claims exceeded the monies appropriated by $1,358,769.42.

30.09 Further, Subsection 31(1) of The Department of Finance Act, 1983 states that:

> *"In a fiscal year, no department, board, commission or other agent of the Government of Saskatchewan shall incur any liability in that fiscal year greater than the unencumbered balance in its appropriation for that year."*

30.10 My representatives noted that total expenditures exceeded total revenues for the year ending March 31, 1987 resulting in an overall deficit of $1,529,674 in the Program.

31

SASKATCHEWAN GOVERNMENT PRINTING COMPANY

BUDGETARY CONTROLS

31.00 The Saskatchewan Government Printing Company was established by Order in Council 859/45 and continued under the provisions of The Crown Corporations Act, 1978. Subsection 6(1) of this Act states:

> *"The affairs and business of a corporation shall be managed by a board of directors consisting of the persons appointed pursuant to subsection 3(1)."*

31.01 Essential to an appropriate system of management controls to achieve the above objective are rules, procedures and budgets that provide the Board of Directors with sufficient information to assess the performance of management and to adjust operations as necessary to meet the targets established in the budget.

31.02 Periodic financial reports containing a comparison of actual results to approved budgets should be prepared and submitted to the Board of Directors for their review. The Board of Directors, in order to ensure themselves that management's responsibilities are properly discharged, should review these reports.

31.03 During the examination, my representatives noted that there was no evidence in the Board of Directors' minutes that a budget was approved by the Board of Directors. Also, it was noted that there was no evidence in the Board of Directors' minutes of a timely review of the monthly financial statements and activity reports prepared by management and submitted to the Board of Directors.

CONTROLS OVER ELECTRONIC DATA PROCESSING

31.04 As part of my examination, my representatives examined the Corporation's rules and procedures to control the processing cycle for the billing system. This included a review to ensure there were rules and procedures to ensure that all information is contained on related master files and that all data processed is complete, accurate and authorized.

31.05 During the examination, my representatives noted that there was no evidence of a comparison and agreement of the data entered into the computer system to the reports generated by the system. Also, it was noted that there was no evidence of a review of these reports.

31.06 This absence of control procedures allows the possibility of data being processed that is not complete, accurate or authorized and may result in errors occurring in the billing process without ready detection on a timely basis.

32

SASKATCHEWAN GRAIN CAR CORPORATION

32.00 Essential in an appropriate system of management controls are procedures for the Board of Directors to monitor the performance of management. A key element of such a system is budgets and an effective interim financial reporting system so that the Board of Directors have financial information to monitor performance.

32.01 During the course of the audit my representatives observed that no interim financial statements were prepared by management. It was also observed that since January, 1985 there was no evidence in the minutes of the Board of Directors of Saskatchewan Grain Car Corporation that the Board considered financial information that would enable it to monitor the performance of management.

32.02 My representatives also observed that there was no evidence in the minutes of the Board of Directors of the Corporation that the annual budget and the annual audited financial statements were reviewed and approved by the Board.

SASKATCHEWAN HOUSING CORPORATION

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SASKATCHEWAN HOUSING CORPORATION

HOME IMPROVEMENT PLAN

33.00 During 1986 the Saskatchewan Housing Corporation introduced the Home Improvement Plan (Saskatchewan Home Program), which provides assistance to homeowners for improvements to their properties. This Plan includes a grant program and a loan guarantee and interest subsidy program. During the audit examination, the following observations were made with respect to these programs.

Legislative Authority

33.01 Section 13 of The Saskatchewan Housing Corporation Act states that:

> *"The objects of the corporation are:*
>
> *(a) to promote and carry out the construction and provision of more adequate and improved housing:*
>
> *i) for low income families and individuals;*
> *ii) for students;*
> *iii) for such elderly persons or class or classes of elderly persons as may be designated by the corporation;*
> *iv) for families and individuals receiving social allowances or social assistance; and*
> *v) generally, for persons or groups which in the opinion of the corporation require assistance;*
>
> *(b) to improve the quality of housing; and*
>
> *(c) to improve the quality of amenities related to housing."*

33.02 A legal opinion was obtained by my office which holds that section 13 does not extend to the Corporation, power to improve the quality of housing and the quality of amenities related to housing generally, but restricts the Corporation's powers, to housing for those disadvantaged groups or persons as they are enumerated in subsection 13(a).

33.03 The legal opinion also stated that the authority for the Home Improvement Plan must have its origins in The Employment Development Agency Act since the Employment Development Fund provided the funding for the Home Improvement Plan. Subsections 8(1) and 8(2) of The Employment Development Agency Act provide legislative authority for the Employment Development Agency to enter into agreements with other organizations in

Saskatchewan, subject to the approval of the Lieutenant Governor in Council. However, the legal opinion indicates the Saskatchewan Housing Corporation has no power to enter into such an agreement with the Employment Development Agency in respect of the Home Improvement Plan since the agreement would not be in accordance with the objects of the Corporation.

33.04 The Corporation has obtained a legal opinion on this matter which includes a differing interpretation of section 13 of the Act. This opinion was drawn to the attention of the solicitor retained by my office. He indicated the opinion provided to the Corporation did not change the views he had expressed or introduce anything new into focus. He concluded that, based on the facts as he understood them, the Home Improvement Plan was not established by agreement, by regulation or in any other way authorized by the Legislature directly or indirectly, before monies were advanced by special warrant under the appropriation of the Employment Development Agency to the Saskatchewan Housing Corporation for the purposes of the program.

33.05 It was also observed that, for the period prior to the special warrant being issued on November 25, 1986, payments were made by the Corporation totalling $12 million, without an appropriation to reimburse the Corporation for these expenditures.

33.06 In light of the circumstances described above, I am not satisfied that the Home Improvement Plan had proper legislative authority and, accordingly, that payments made were applied to purposes authorized by the Legislature.

33.07 Notwithstanding these concerns regarding legislative authority, it was recognized that the plan was introduced and operated by Saskatchewan Housing Corporation, and accordingly, the audit examination also included a review of the Corporation's system of management controls for the component programs. This included the system for establishment of program criteria and administration of the programs. In this regard, the following observations were brought to my attention.

MANAGEMENT CONTROL SYSTEMS DEFICIENCIES IN HOME IMPROVEMENT GRANT PROGRAM

Establishment of Program Criteria

33.08 Inherent in an appropriate system of management controls is the formal communication of policies and the delegation of authority from the Board to senior management and from senior management to the appropriate employees as well as procedures to ensure that all transactions comply with the policy and delegation.

33.09 In this regard, my representatives observed that there was no evidence that the Board of Directors had approved the detailed eligibility criteria and procedures developed by management to administer this program.

33.10 In addition, my representatives made the following additional observations with regard to the establishment of the eligibility criteria and procedures developed by management.

33.11 The audit examination identified a number of instances where certain policies and procedures established by management were not complied with, such as the following:

a) There was no original invoice on file to support a payment and no indication that an original invoice was examined, cancelled and returned to the applicant.

b) Original invoices were dated prior to September 1, 1986, the date of commencement of the program.

c) An application form was incomplete regarding ownership and occupancy status.

d) A commitment notice was not signed by a homeowner indicating that all work was complete.

e) Work commenced prior to written approval being received from the Corporation.

33.12 My representatives have been informed that for the last three items identified such policies and procedures are not always required, since they are simply administrative in nature. Without clearly established eligibility criteria uniformly enforced as a matter of corporate policy, it is possible that applications and payments may be processed differently for individuals in similar circumstances.

Compliance With Program Criteria

33.13 As part of the Home Improvement Plan, the Corporation provides grants to homeowners to assist with the cost of improvements to their properties. The Corporation receives a completed application form from the homeowner to initiate the transaction. A commitment notice is mailed to the homeowner upon approval of the applications and is returned upon completion of the work with supporting documentation. An inspection/payment record is generated by the Corporation detailing pertinent information regarding invoices submitted, previous payments and inspection particulars.

33.14 The examination disclosed the following areas where the Corporation did not have adequate procedures in place to ensure the applicants complied with all program criteria established by management.

Eligibility as Occupant and Owner of Home

33.15 The Corporation utilizes a computerized edit routine which produces error reports identifying inconsistencies between residency information included in applications and a reference file used by the Corporation for this purpose.

Any identified inconsistencies are processed by the system as valid applications unless a clerk intervenes by removing the application from the computer files. These error reports, however, were not followed up on a timely basis in the Regina office and were not followed up at all for the Saskatoon and Prince Albert offices. Secondly, the computerized edit checks did not include an address cross check to prevent two individuals in the same household with different last names and different hospitalization numbers from both applying for the grant. Finally, there were no procedures to ensure that an individual only receives the grant if the applicant is a homeowner and occupant of the home.

33.16 As a result of these weaknesses, grant payments may be made to applicants who do not qualify under the published occupancy and residence criteria.

Independent Authorization of Applications

33.17 For applications processed in Regina and Saskatoon, the Corporation did not have an independent review and approval of the completed application prior to payment, which would ensure that properly completed applications and supporting documents are on file, and that all program criteria have been met. In addition, such a control would ensure that no one person is in a position to perpetrate and conceal errors or irregularities in the normal course of his/her duties.

33.18 As a result of this weakness, grant payments may be made that are not properly supported as to eligibility of applicants. (See also paragraph 33.11 of this chapter).

Inspection Procedures

33.19 For the sample of grant transactions where inspections were to be done, the Corporation did not have defined procedures in place to ensure all inspection payment records were returned and properly completed. In addition, there was no accumulation of the sample inspection results into summary reports for management review, follow-up and consideration of remedial action.

33.20 As a result of this weakness, the inspection process did not provide management with sufficient information to ensure grant payments were being made for eligible work.

HOME IMPROVEMENT LOAN PROGRAM

33.21 In connection with the administration of this program, officials of the Corporation prepared a Lenders Handbook which was provided to all lending institutions and staff of the Corporation for use in processing applications. In addition, certain preprinted forms were prepared which outline some additional program criteria.

33.22 The corporation did not have formally documented procedures in place to ensure that the applicant's declaration on the Home Improvement Loan

Agreement (filed at the lenders) was properly completed, that all eligibility criteria have been complied with, such as ensuring that the loan money was only being used for the purpose intended, or that the loan was adequately secured in the event of default.

33.23 For instance, the application forms used in the program only obliged the borrower to use the proceeds of the loan for home improvements within one year of receipt of the loan proceeds and the Lenders Handbook only required lenders to obtain a promissory note as security for each loan.

33.24 As a result of these weaknesses, interest subsidies and administration payments may be made to lenders for unauthorized loans or loans used for purposes not intended. In addition, the Province's exposure to loss in connection with guarantees on the loans is increased because of the absence of prudent security requirements.

SENIOR CITIZENS HOME REPAIR PROGRAM

33.25 Saskatchewan Housing Corporation provides grants to senior citizens to assist them in making repairs to their homes.

33.26 The Senior Citizens Home Repair Assistance Regulations set out an income test for a person to qualify for a grant. An applicant is granted assistance based only on the personal declaration of income by the applicant. Officials of the Corporation do not perform any verification of the income declared by the applicant to determine the accuracy of the declared amount.

33.27 As a result, procedures in place are not adequate to ensure grants are made in compliance with the income restriction established in the regulations.

33.28 This matter was also reported in my 1986 annual report.

MANAGEMENT SUPERVISORY CONTROLS - INTERNAL AUDIT FUNCTION

33.29 In larger organizations, no one manager can have direct personal knowledge of every facet of the organization and supervisory responsibilities must therefore be delegated. Where senior management is not able to monitor the system of internal control, for reasons such as decentralization, it is usual to have an internal audit function.

33.30 Although the Corporation does have certain internal audit capacity through the use of its Financial Consultant staff, the Board of Directors and/or the Audit Committee of the Corporation have not established terms of reference for an internal audit function in the Corporation.

The terms of references of an internal audit function may include:

a) monitoring adherence to prescribed procedures and considering their effectiveness;

b) considering efficiency and evaluating employee competence and performance;

c) evaluating controls in the financial accounting area;

d) conducting operational audits or value-for-money audits throughout all operating departments, not just financial accounting;

e) visiting branches away from the head office location;

f) reporting findings and recommendations for improvement; and

g) providing assistance to the external auditor.

33.31 Because the Corporation does not have a formally established, independent internal audit function, the risk is increased that management may be unaware of deviations from prescribed policies and procedures as well as deficiencies in internal control systems where the institution of prescribed policies and procedures could serve to safeguard and control public money.

DISBURSEMENTS

33.32 In my 1986 annual report I reported the following system deficiencies to control disbursements.

33.33 Inherent in a system of management controls is an adequate segregation of duties that does not permit one person to be left in a position to perpetrate and conceal errors or fraud. In a computer environment, because of the concentration of many accounting functions, effective control of processing is required in order to adequately achieve the desired segregation of duties.

33.34 My representatives observed that the control procedures over payments were not adequate to effectively segregate the duties of employees involved in the payment process to prevent or detect in a timely period unauthorized payments.

33.35 During the year under review, this weakness continued although additional procedures were implemented in September, 1986, which reduced the Corporation's exposure to loss or error.

33.36 My representatives conducted additional audit tests to discover whether the weakness in procedures had resulted in any cases of unauthorized payments. The audit tests were not designed to discover all cases of unauthorized payments and, accordingly, the following reported errors should not be considered to represent all cases of unauthorized payments but rather are presented to provide examples of the types of errors that were discovered.

33.37 Audit tests revealed the following instances where payments were made without proper authorization or support:

a) One payment for $36,984 was made in July, 1986, but no supporting documents were attached to the payment voucher. Upon further investigation it was determined that the item in question should not have been processed since a payment had already been made. As a result, a duplicate payment was discovered. No ultimate loss occurred since the payee returned the second cheque, and it was subsequently cancelled by the Corporation.

b) One payment of $99,316 was made in April, 1986, where the authorizing payment voucher could not be found. Alternative documentation was examined to ascertain the propriety of this payment.

c) One payment of $48,131 was made in December, 1986, but was not approved by the appropriate officials in the Finance Department. A review of the supporting documents was made to ascertain the propriety of this payment.

CONTROLS OVER ELECTRONIC DATA PROCESSING

33.38 As part of the examination my representatives examined the rules and procedures to determine whether (1) the security systems are adequate to prevent and detect unauthorized access to information or unauthorized manipulation of data maintained on computer files, (2) the rules and procedures for development of computer systems are adequate to ensure essential records are maintained, and (3) back-up files and programs and alternate processing facilities are available to ensure that computer processing capability can continue in the event of an equipment failure.

33.39 My representatives observed that a satisfactory implementation plan was not in place for the computerization of the programs included in the Home Improvement Plan as evidenced by:

a) the record layout was changed after a month of operation;

b) programming was not complete prior to implementation resulting in an inability to make certain adjustments until the new year; and

c) complete documentation of the system was not in place at time of implementation.

33.40 The lack of appropriate documentation increases the risk of errors occurring during routine processing and allows the possibility of processing disruption in the event of a system failure.

33.41 The Corporation utilizes the services of Saskatchewan Computer Utility Corporation (SaskComp) for data processing. The Corporation has the responsibility to ensure that the computer operating system and processing environment is administered in such a manner as to achieve proper integrity over the processing operations done for the Corporation, and to maintain

security over Corporation programs and data files in accordance with policies and standards laid down by the Corporation.

33.42 In order to discharge this responsibility, officials of the Corporation must ensure their data files and programs are protected from unauthorized access.

33.43 My representatives observed there was an absence of control procedures to ensure that only authorized persons had access to the Corporation's records and programs.

33.44 Officials of the Corporation have acquired the use of a security software package offered by SaskComp to control access to data files and programs. If this security software package is implemented appropriately, it provides many of the necessary controls to control access to the Corporation's programs and data files.

33.45 Officials of the Corporation have not appropriately implemented the security software package so as to ensure that only appropriate personnel have access to appropriate data and program files.

33.46 With regard to alternate computer processing capability, my representatives also observed there was not a documented and tested plan for processing of financial transactions in the event of an equipment failure.

33.47 Further, during the course of my examination, it was noted that there was no policy requiring the data centres used by the Corporation to provide written assurance, attested to by an auditor, that security over the operating system and processing environment at the data centre was adequate to ensure that they have implemented and satisfactorily carried out the control procedures required by the Corporation.

33.48 Accordingly, the Corporation has no evidence that their records are protected in accordance with the policies that they have established with the result that the security of their data files and programs may be compromised.

OTHER OBSERVATIONS ON NON-COMPLIANCE WITH AUTHORITIES

33.49 In addition to the foregoing management control deficiencies, my representatives made the following observations regarding non-compliance with legislative authorities.

BORROWING AUTHORITY

33.50 Subsection 39(1) of The Saskatchewan Housing Corporation Act states that:

> *"Subject to the approval of the Lieutenant Governor in Council the corporation may, for the purposes of the corporation, borrow from time to time such sums of money within the borrowing limitation prescribed by section 41 as the corporation may consider requisite....."*

33.51 During the year, Corporation officials entered into an agreement on behalf of the Corporation, for a term bank loan of $950,000 without the approval of the Lieutenant Governor in Council. This transaction was also not approved by the Corporation's Board of Directors.

33.52 In my opinion, this debt transaction was not properly authorized in accordance with subsection 39(1) of The Saskatchewan Housing Corporation Act.

LEGISLATIVE AUTHORITY FOR A REPAIR PROGRAM FOR SENIOR CITIZENS ACCOMMODATION

33.53 During 1986, the Saskatchewan Housing Corporation introduced a program whereby grants were offered to assist non-profit organizations to repair and upgrade existing self-contained accommodation units for senior citizens, initially funded under section 15.1 of The National Housing Act. To provide a mechanism for funding these repairs, the Corporation, beginning in 1985, charged certain municipalities a sum equal to five percent of the cost of rural housing projects constructed in their community and financed 100% by Canada Mortgage and Housing Corporation (CMHC). However, the agreements in place between the Corporation and CMHC do not require 5% participation by the municipalities.

33.54 The amounts collected in the above manner in 1985 and 1986 totalled $615,596 and have been offset against the costs of the repair program totalling $448,264, with the net amount of unexpended collections from municipalities of $167,332 being included in accounts payable in the Corporation's financial statements at December 31, 1986.

33.55 From my review of The Saskatchewan Housing Corporation Act and the agreement with CMHC, it does not appear that the Corporation had proper authority to collect the $615,596. In addition, it is my opinion that the grant expenditures of $448,264 were made without the necessary funds being appropriated by the Legislature for that purpose. Also, the criteria for this repair program were not prescribed by regulations, as noted in paragraph 33.63 of this chapter.

MORTGAGE LOAN TO A NON-PROFIT ORGANIZATION

33.56 The Saskatchewan Housing Corporation advanced $2,081,000 to a non-profit organization during 1986. The background and facts relating to this mortgage loan are as follows:

33.57 In 1978, the sponsoring organization received approval to construct a 163-unit senior citizen apartment complex next to its existing nursing home. Due to structural deficiencies, the project was not completed and the organization started legal proceedings against the architect and the contractor. After a six-year court battle, a judgement in 1985 yielded $1,700,000 of which the organization expected to realize $1,100,000 following payment of liens, as compared to existing debts of approximately $5 million. An appeal and cross-appeal was expected to hold up payment for several years.

33.58 Since the $1,100,000 above was not sufficient to cover the existing bank mortgage obligation of the organization, the Board of Directors of Saskatchewan Housing Corporation and Treasury Board approved a financial assistance package which called for the Corporation to advance $2,081,000 to pay out the bank on behalf of the organization as an interest only mortgage loan with the mortgage registered against the nursing home property.

33.59 Subsection 13(a) of The Saskatchewan Housing Corporation Act states:

> *"The objects of the Corporation are:*
>
> *a) to promote and carry out the construction and provision of more adequate and improved housing...."*

33.60 The Corporation obtained a legal opinion which stated that this mortgage loan does meet with the objectives of the Corporation.

33.61 Based on my review of this financial package and in the absence of any legally binding commitment by the organization to construct a new project, it is questionable where this loan will promote and carry out the construction and provision of more adequate and improved housing or will simply assist the organization to cover existing debts incurred for a structurally deficient project which must be demolished. Accordingly, I am not satisfied that this loan was made within the powers of the Corporation under subsection 15(g) of the Act which states, in part:

> *"The Corporation may....provide loans....for the purposes of this Act...."*

NO REGULATIONS FOR PROGRAMS

33.62 In previous annual reports I expressed the view that, by virtue of the regulation making powers provided for in sections 14, 15 and 16 of The Saskatchewan Housing Corporation Act, the Legislature intended the Executive Council to exercise control over the eligibility criteria governing the grant and subsidy programs administered by the Corporation. I continue to recommend that regulations be issued under the above sections to govern the specific program criteria applicable to the grant and subsidy programs of the Corporation. This would include any programs where new commitments are being made or old programs which continue to be administered by the Corporation. These regulations would also include specific details of the components and method of calculating subsidies paid by the Corporation and the means by which the subsidies are to be recovered from the Consolidated Fund.

33.63 The following programs did not have regulations governing their operations:

a) Co-operative Housing
b) Farm Housing
c) Build-A-Home

d) Saskatchewan Family Home Purchase
e) Non-Profit Sponsors of Senior Citizen's Accommodation
f) Home Modification for the Disabled
g) Home Improvement Plan
h) First Time New Home Buyers Program
i) Saskatchewan Mortgage Guarantee Program
j) Repair Program for Senior Citizens Accommodation (initially funded under section 15.1 of The National Housing Act)
k) Public Housing and Rural Housing Subsidy Programs

33.64 During 1986, the Board of Directors of the Corporation approved the recovery, through provincial public housing subsidies, of capital costs and operating losses from certain non-profit housing units which were converted to enriched housing units for seniors. These projects were originally constructed under section 56.1 of The National Housing Act and provincial subsidies were not previously received for them. Secondly, during 1986, the Corporation changed its accounting policy with respect to rural housing units. This change in accounting policy resulted in a change in the method of calculating the amount of subsidy being drawn from the Consolidated Fund, including a retroactive change for years prior to 1986. Both of these situations exemplify instances in which changes in the nature and method of the calculation of subsidies were made, affecting the amount of monies being drawn from appropriations of the Consolidated Fund.

33.65 If a uniform practice of issuing regulations for new programs, for changes in program criteria and the means of recovering subsidies from the Consolidated Fund is not in force, it is possible for the Corporation to implement changes without cabinet approval. Further, if regulations are not issued, the Special Committee on Regulations of the Legislative Assembly will not be afforded the opportunity to examine the specific program criteria to ensure its conformity with the objects and powers of the Corporation.

34

SASKATCHEWAN LEGAL AID COMMISSION

34.00 In my 1986 annual report I reported that with computerized accounting systems it is particularly important that effective systems development controls be present so that prescribed procedures are observed and approvals obtained before new systems or system modifications are implemented. Such controls will normally ensure that new systems are designed efficiently and will generate the information necessary to meet the needs of both internal and external users as well as ensuring that proper studies have been performed and that adequate conversion plans are in place prior to implementation.

34.01 In 1986, the Commission adopted a computerized information system known as the Legal Aid Management Information System (LAMIS). The system requires each lawyer/paralegal to complete and forward to the Commission a dossier form (time report) for each legal case completed. These dossier forms serve as a source of data entry for the LAMIS system. LAMIS provides various statistical reports including a year to date summary report for each lawyer/paralegal, which indicates the percentage of time spent on criminal (shareable) or civil (non-shareable) legal cases. This LAMIS summary report is used by the Commission in the preparation of the annual Federal Cost Sharing Claim. During the examination, it was observed that there is a lack of a timely and economical management/audit trail between this LAMIS summary report and the dossier forms. Accordingly, the Federal Cost Sharing Claim may not be prepared on a timely basis and the Claim may not be susceptible to complete audit verification in accordance with the requirements of the Federal/Provincial Cost Sharing Agreements.

34.02 This weakness continued for 1987 and allows the possibility of a delay and/or impairment in the collection of monies otherwise due to the Province of Saskatchewan.

34.03 Management has informed me that a study has been done to correct this weakness but due to financial constraints implementation of corrective action has been delayed.

35

SASKATCHEWAN MINERALS

35.00 During the course of the audit the following observations regarding non-compliance with legislative authorities were made.

35.01 On several occasions during the year the Corporation was in an overdraft position at its local financial institution.

35.02 Section 41 of The Department of Finance Act, 1983 states:

> *"Notwithstanding the provisions of any other Act, no department, board, commission or agent of the Government of Saskatchewan and no Crown corporation shall borrow any moneys without the approval of the minister."*

35.03 No evidence of the Minister's authorization of this debt was provided by management.

35.04 Section 17 of The Crown Corporations Act, 1978 states:

> *"17. All persons employed by a corporation who in the course of their employment receive or disburse cash, and any other officers and employees that may be considered advisable, shall be bonded in such sums as may be required by the corporation for duly accounting for moneys or goods which come into their hands or under their control."*

35.05 This section of the Act requires the Corporation to bond employees based upon the sums of money or goods that come into the hands or under the control of the respective employees.

35.06 It was noted that Corporation employees were not bonded.

35.07 Accordingly, it is my opinion that the Corporation has not complied with Section 17 of The Crown Corporations Act, 1978.

36

SASKATCHEWAN PROPERTY MANAGEMENT CORPORATION

36.00 As at the date of this report the Legislative Assembly's audit requirements have not been discharged for the year ended March 31, 1987.

36.01 The following events lead up to this non-performance of audit and reporting duties:

36.02 As the auditor of the Saskatchewan Property Management Corporation (SPMC), my representatives wrote to the Corporation in March, 1987 asking to be advised when the financial statements for SPMC for 1987 and 1986 would be available for audit in order that the audit could be appropriately planned.

36.03 In June, 1987, my resources were reduced to recognize that the audit of Crown corporations would be carried out by private sector auditors.

36.04 In June, 1987, the Corporation responded to my letter that a private sector auditor was to be appointed to audit the accounts of SPMC.

36.05 On June 29, 1987, I wrote to the Chairman of the Board of the Corporation requesting copies of the audit proposals from the auditing firms to ensure that all of the audit requirements of the Legislative Assembly would be discharged.

36.06 The Crown Investments Corporation of Saskatchewan (CIC) responded to my request in this regard and after additional correspondence advised that I would not be provided with copies of these proposals.

36.07 My inability to obtain these proposals was discussed with me by the Standing Committee on Public Accounts at a public hearing on September 22, 1987, and with CIC on September 24, 1987.

36.08 On November 18, 1987, Deloitte, Haskins & Sells (DHS) advised me that they had been asked to accept the appointment as auditors of SPMC and asked me if there was any professional reason why they should not.

36.09 On November 23, 1987, I wrote to DHS and advised that I knew of no professional reason why they should not accept the appointment as auditors of SPMC. I also provided DHS with the Legislative Assembly's audit requirements as set out in The Provincial Auditor Act.

36.10 On December 22, 1987, I wrote to DHS requesting a reply to my letter of November 23, 1987, and advised that I was prepared to meet with them to discuss any anticipated problems with the Legislative Assembly's audit

requirements so that at the conclusion of their audit I would be in a position to rely on their work and reports.

36.11 On February 29, 1988, my representatives wrote to DHS to confirm an earlier conversation with DHS in which it was indicated that the reports that I requested from DHS on November 23, 1987 would be received on or before March 31, 1988.

36.12 In late March, at a meeting with DHS, I was advised that DHS was of the opinion that they may be unable to report on the management control systems in place at SPMC for the year ended March 31, 1987, as they had not been appointed auditor until after the year end.

36.13 DHS has not, at the date of this report, provided me with the formal reports I requested to discharge the reporting responsibilities to the Legislative Assembly.

36.14 Further, it is my opinion that it would be unrealistic at this late date to conduct my own audit examination of the accounts of SPMC pursuant to subsection 11.1(3) of The Provincial Auditor Act as it would further delay this annual report.

36.15 Accordingly, I will await the formal reports from DHS and advise the Legislative Assembly of the results of their March 31, 1987 audit in my March 31, 1988 annual report.

36.16 As a result, the Members of the Legislative Assembly do not have the necessary information on a timely basis to exact the appropriate degree of accountability from the executive government for its quality of administration of the assets entrusted to the SPMC.

SASKATCHEWAN TELECOMMUNICATIONS INTERNATIONAL INC.

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SASKATCHEWAN TELECOMMUNICATIONS INTERNATIONAL, INC.

37.00 Saskatchewan Telecommunications International, Inc. is a wholly owned subsidiary of Saskatchewan Telecommunications.

SEGREGATION OF DUTIES

37.01 Fundamental to a system of management controls is the segregation of certain key functions. The basic idea underlying segregation of functions is that no employee or group should be in a position both to perpetrate and to conceal errors or unauthorized payments in the normal course of their duties.

In general, the principle incompatible functions to be segregated are:

i) custody of assets

ii) authorization or approval of related transactions affecting those assets, and

iii) recording or reporting of related transactions.

37.02 In the case of Saskatchewan Telecommunications International, Inc. (S.I.), the payment processing system in force during the initial period of operations to December 31, 1986 allowed payment vouchers to be approved by any one of the authorized signers acting alone. In addition, the actual payment cheque was normally machine signed based on the authority of the person who approved the voucher. The combination of these two factors created a situation where the same person was in a position to initiate a purchase and authorize the payment by approving the payment voucher without higher level review, thus effectively performing the incompatible duties of authorization of payment transactions and custody of the cash in the bank account.

37.03 This lack of segregation of duties over payments during the initial period of operations is the result of an absence of established controls over payments rather than non-compliance with established control procedures. The possible consequence of this weakness is that unauthorized payments may not be detected on a timely basis.

SUPERVISORY CONTROLS

37.04 Essential to an appropriate system of management controls are rules and procedures which permit management to effectively discharge its responsibilities of reviewing, analyzing, and controlling operations of the

organization. A key element of such a system is an effective interim financial statement preparation and reporting system.

37.05 In this connection, an effective system requires operational management (staff of S.I.), to inform accounting (Controller's staff at Saskatchewan Telecommunications) of the results of operating transactions.

37.06 These transactions are then recorded and summarized in the form of financial statements and then submitted to both operational and senior management for their review.

37.07 However, the financial statements submitted for review are only useful in monitoring operations when reasonable steps have been taken to ensure the accuracy and completeness of those statements. Thus the overall responsibility for the preparation of accurate and complete financial statements must necessarily be shared by operations and accounting.

37.08 The degree of sophistication of such a reporting system will actually depend on the size and complexity of a particular organization. In S.I.'s case, even though the gross revenue was less than $1 million and the total number of full time employees was fewer than ten, the complexity of its operations was relatively high as the operations consisted of a variety of unique projects, rather than a few homogeneous transaction 'streams' as found in many organizations. This implies the need for a relatively sophisticated reporting system in order to facilitate accurate financial statement preparation.

37.09 The need for an adequate reporting system to facilitate accurate financial statement preparation is common to systems which produce financial statements for internal use, external use, or both.

37.10 However, when financial statements are prepared for external use, the reporting system must also include a mechanism which allows the selection of a financial statement format and inclusion of all information which is necessary to satisfy the requirements of Generally Accepted Accounting Principles (GAAP).

37.11 During the course of the examination, my representatives observed various situations where both the financial statements and the information disclosed in the notes to the financial statements were either incorrect or incomplete and required changes to satisfy the requirements of GAAP.

37.12 This weakness is the result of an absence of established financial reporting procedures rather than non-compliance with established procedures.

37.13 The consequences of this weakness is that incorrect financial statements can adversely influence decisions taken or opinions formed by readers of these financial statements.

38

SASKATCHEWAN TELECOMMUNICATIONS SUPERANNUATION BOARD

38.00 The Saskatchewan Telecommunications Superannuation Board administers The Saskatchewan Telecommunications Superannuation Act.

38.01 The Saskatchewan Telecommunications Superannuation Act established the Saskatchewan Telecommunications Superannuation Fund and set out criteria for the receipt and disbursement of money.

38.02 My representatives made the following observations regarding an early retirement package provided to certain employees of Saskatchewan Telecommunications (Sask Tel).

38.03 In 1986, Sask Tel offered an early retirement package to certain of its employees. This package included, in addition to the allowance entitlements provided by Section 22 of The Superannuation (Supplementary Provisions) Act, other additional incentives and bridging benefits.

38.04 Sask Tel proposed to the Saskatchewan Telecommunications Superannuation Board (Board) that, in the interest of expediency, the additional incentives and other benefits be paid together with the monthly superannuation allowances payable by the Board. To enable the Board to meet these payments Sask Tel was to pay into the Superannuation Fund the necessary sums of money.

38.05 The Board agreed to accommodate this proposal and consequently, received and credited to the Superannuation Fund $6,467,417 being the actuarially determined sum to meet the future payments of the additional benefits. The Board has since commenced paying these superannuation allowances, including the additional benefits, from the Superannuation Fund.

38.06 The benefits paid are as follows:

a) A supplemental pension payable for life based on a percentage of current salary and age at retirement;

b) A bridge benefit payable to age 65 in the amount of $250 per month; and

c) Waiver of any penalty imposed by The Saskatchewan Telecommunications Superannuation Act for retiring early.

38.07 These benefits and incentives are paid in addition to the superannuation allowance permitted by Section 22 of The Superannuation (Supplementary Provisions) Act.

38.08 However, neither of the two aforementioned Acts empowers the Board to authorize the payments of additional benefits from the Fund or to waive stipulated reductions in allowances. Therefore, in my opinion, all superannuation benefits paid by the Board from the fund in excess of the allowance as calculated by Section 22 of The Superannuation (Supplementary Provisions) Act represent payments for which there is no authority.

38.09 In July, 1987 the Board received a legal opinion which stated that there is no specific section in the aforementioned Acts which would prohibit excess superannuation being paid to the superannuates where such payments are made pursuant to an arrangement as was done in this case and where the payments are not made to circumvent the legislation but to avoid duplication in the administrative functions.

38.10 However, my legal counsel advises me as follows:

> *"The provision(s) of the Saskatchewan Telecommunications Superannuation Act and the Superannuation (Supplementary Provisions) Act are quite specific. They show precisely how contributions can be made and what payments can be made out of the funds in different circumstances. I find in neither Act any legislative provision to permit or authorize payment of additional benefits from the Superannuation Fund or to waive any applicable reductions and allowances."*

38.11 Consequently, in my opinion, the payments of additional benefits and waivers of stipulated reductions in allowances made to superannuates in connection with the early retirement package are without authority and will continue to be so until the necessary legislative amendments are made.

38.12 I communicated the above mentioned concerns to management responsible for the administration of the Fund.

38.13 Management responded that the employees under the 1986 Early Retirement Program were retired pursuant to Section 10 of The Saskatchewan Telecommunications Superannuation Act.

38.14 Section 10 of The Saskatchewan Telecommunications Superannuation Act reads as follows:

> *10. An employee who:*
>
> *a) in the opinion of the corporation is not physically or otherwise qualified for the requirements of his employment;*
>
> *b) has attained the age of fifty-five years; and*
>
> *c) has served at least ten continuously;*
>
> *may be retired at the option of the corporation...."*

38.15 In my opinion, in order for an employee to be retired pursuant to the above section the employee must satisfy all of the above eligibility requirements. My representatives have been provided with the following evidence that the retired employees were not qualified for the requirements of their employment:

38.16 Management responsible for the administration of the Act advised me as follows:

> *"The following were the procedures employed to determine eligibility for the SaskTel 1986 Early Retirement Program:*
>
> *a) Employees who met program criteria were determined;*
>
> *b) Eligible employees were advised of the Program;*
>
> *c) Eligible employees who were no longer interested in working for SaskTel and instead were interested in retiring in accordance with the Early Retirement Program advised SaskTel of same;*
>
> *d) As part of c) above, senior management entered into discussions with eligible employees who were still capable of fulfilling the requirements of his/her job with a view of enticing those management employees to stay on. In this regard, a number of eligible employees stayed with SaskTel.*
>
> *It is SaskTel's position that the selection process for the Program was such that employees who requested early retirement in accordance with the Program met the criteria of Section 10 of the Act. By indicating their desire to retire from the corporation's employ, the employees were, in SaskTel's opinion, no longer qualified for the requirements of their employment as they no longer desired to fulfill those requirements.*
>
> *With respect to declarations to retire under Section 10, we have a file for each retiree which contains their request to retire from the corporation. These requests were not specific to Section 10 as it is the corporation's decision as to whether or not the employees qualified for retirement under Section 10."*

38.17 This response did not alter my opinion that all superannuation benefits paid by the Board from the Fund in excess of the allowance as permitted by Section 22 of The Superannuation (Supplementary) Provisions Act represents payments for which there is no authority.

39

SOURIS BASIN DEVELOPMENT AUTHORITY

39.00 During the course of the examination of the accounts of the Authority my representatives observed an instance where the Authority appeared not to have complied with appropriate authority.

39.01 Section 41 of The Department of Finance Act, 1983 states:

> *"Notwithstanding the provisions of any other Act, no department, board, commission or agent of the Government of Saskatchewan and no Crown corporation shall borrow any moneys without the approval of the minister."*

39.02 In 1986, the Authority borrowed $325,000 for interim financing. During the examination, my representatives noted that the Authority had not received the Minister of Finance's approval for these borrowings as required by The Department of Finance Act, 1983.

40

THE LIQUOR BOARD SUPERANNUATION COMMISSION

40.00 The Liquor Board Superannuation Commission is responsible for the administration of The Liquor Board Superannuation Act.

40.01 The Liquor Board Superannuation Act established a fund called the Liquor Board Superannuation Fund.

40.02 The Liquor Board Superannuation Act specifies what investments may be held in the Liquor Board Superannuation Fund.

40.03 The Commission has delegated authority to the Department of Finance, Investments and Financial Services Division, to make the investments on behalf of the Commission.

40.04 My representatives observed that the officials responsible for the administration of the Fund did not have control procedures to ensure that investments purchased were in compliance with The Liquor Board Superannuation Act.

40.05 This deficiency in control procedures could result in the purchase of unauthorized investments without ready detection by the officials responsible for the administration of the Fund.

40.06 This matter was also reported in my 1986 annual report.

THE SASKATCHEWAN RESEARCH COUNCIL

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THE SASKATCHEWAN RESEARCH COUNCIL

41.00 During the course of the audit my representatives observed that the Council had entered into the following transactions that did not appear to be within its authority:

CONTRACTS WITHOUT APPARENT AUTHORITY

41.01 Section 11 of The Research Council Act describes the powers of the Council. This section states, in part:

> *"11. Subject to such regulations as the Lieutenant Governor in Council may prescribe, the council may:*
>
> *e) carry on research, development, consultation, design, innovation, investigations and studies for other persons or bodies upon such terms and conditions, including remuneration for its services, as may be decided upon by the council and approved by the Lieutenant Governor in Council;..."*

41.02 In my 1985 annual report, I reported that it was suggested to management of the Council that, since a significant portion of its activity could be construed as falling within the criteria described in subsection 11(e), there should be a clear understanding of the circumstances in which such approval would be required. Accordingly, it was recommended that a legal interpretation of this clause be obtained by the Council in this regard. A legal opinion subsequently obtained by the Council confirmed that the terms and conditions concerning services provided for other parties must be approved by the Lieutenant Governor in Council.

41.03 At the date of this report, approval of the Lieutenant Governor in Council has not been obtained for activities performed under contract for others. Accordingly, all expenditures relating to such contracts have been made without authority.

41.04 Management of the Council has informed me that they intend to seek a legislative amendment to The Research Council Act.

41.05 This matter was also reported in my 1986 annual report.

STUDENTS IN INDUSTRY AND GRADUATES IN INDUSTRY EMPLOYMENT PROGRAMS

41.06 In my 1986 annual report I reported that the Council was administering the Students in Industry and Graduates in Industry employment

programs. The Council subsidizes companies employing students and graduates hired under these programs.

41.07 I also reported that in 1985/86, a separate grant of $1.88 million was received from the Saskatchewan Employment Development Agency to fund these employment assistance programs, of which $1.17 million was disbursed by the Council in the 1985/86 year. In the absence of an agreement between the Agency and the Council under Section 19 of The Research Council Act, my solicitor advises that he can find no statutory authority for payments made to employers under these programs.

41.08 In 1986/87 a further $.31 million was disbursed under these programs by the Council.

PAYMENTS TO BOARD MEMBERS

41.09 The Research Council Act provides that members shall hold office for a period of three years and are eligible for reappointment. The Act further provides in section 6 *"each member of the Council who is not a government employee shall be paid any remuneration for his services and allowances for travelling and other expenses that may be determined by the Lieutenant Governor in Council".*

41.10 During the course of the examination, my representatives noted several instances where members of the Council, whose terms had expired, were paid remuneration for their services, allowances for travelling, and other expenses for meetings attended when they were not council members. These instances were comprised of: three members whose terms expired February 10, 1986 of which two were reappointed May 6, 1987, and five members whose terms expired January 11, 1987 of which four were reappointed May 6, 1987.

41.11 In my opinion, these payments which totalled $2,372 were made without adequate authority.

THE SASKATCHEWAN RESEARCH COUNCIL EMPLOYEES' PENSION PLAN

41.12 The Saskatchewan Research Council has established a pension plan for its employees and has created a special fund, The Saskatchewan Research Council Employees' Pension Fund, to receive contributions, hold investments and pay retirement allowances to plan members. The plan is administered by a Board of Trustees.

41.13 A review and evaluation of the management control systems for the Pension Plan disclosed that there was an absence of control procedures to ensure that investments are made in accordance with relevant authorities.

41.14 This weakness results in more than a relatively low risk that unauthorized investments may be made.

WESTANK INDUSTRIES LTD.

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42

WESTANK INDUSTRIES LTD.

42.00 Westank Industries Ltd. is a subsidiary of Saskatchewan Economic Development Corporation.

FINANCIAL REPORTING

42.01 When the government forms or acquires a company using public money, the government assumes a commensurate level of accountability to the public for the operation of that company.

42.02 The fact that public money was used to acquire Westank Industries Ltd. means that the government must accept and fulfill certain obligations necessary to protect the public interest.

42.03 In order for the Legislative Assembly to have sufficient information to hold the executive government accountable for the administration of public money, there is a fundamental obligation on the executive government to provide timely, full and fair public disclosure regarding its administration of public money.

42.04 Financial statements for Westank Industries Ltd. have not been tabled in the Legislative Assembly. As a result of this, the government is not fully accountable to the Members of the Legislative Assembly for its administration of this company.

42.05 This matter was reported in past years and was considered by the Standing Committee on Public Accounts.

42.06 The Committee in its report of November 3, 1987, which was concurred in by the Legislative Assembly, recommended:

> *"That the Committee recommend that the government consider preparing legislation to ensure that the duly audited financial statements for Crown agencies established pursuant to The Business Corporation Act are tabled in the Legislative Assembly, providing that the competitive position of the Crown Corporation is not prejudiced."*

BUDGETARY CONTROLS

42.07 A study and evaluation of the management control systems disclosed the following conditions which resulted in more than a relatively low risk that errors or fraud in amounts that would be material may occur and not be detected in a timely period.

42.08 Essential in an appropriate system of management controls are control procedures which permit management to review, analyze and control the operations of the organization and procedures for the Board of Directors to monitor the performance of the management. A key element of such a system is budgets and an effective interim financial reporting system so that management and the Board of Directors have financial information to assess performance and adjust operations as necessary in order to meet targets established in the budget.

42.09 During the course of the examination it was observed that operating budgets were prepared by management. However, there was no documentary evidence indicating that variances between budget and actual results were reviewed and investigated.

APPENDIX I

An Act respecting the Provincial Auditor and the Auditing of Certain Accounts

SHORT TITLE AND INTERPRETATION

1 This Act may be cited as The Provincial Auditor Act.

2 In this Act:

(a) "acting provincial auditor" means the acting provincial auditor appointed pursuant to section 5;

(a.1) "appointed auditor" means an auditor appointed pursuant to an Act or other authority by the Lieutenant Governor in Council or another body to examine the accounts of a Crown agency or Crown-controlled corporation or accounts otherwise related to public money;

(b) "audit" means an audit or examination of accounts of public money that may be made by the provincial auditor pursuant to this Act;

(c) "Crown" means Her Majesty the Queen in right of Saskatchewan;

(d) "Crown agency" means an association, board, commission, corporation, council, foundation, institution, organization or other body, whether incorporated or unincorporated, all the members of which or all of the board of management or board of directors of which:

(i) are appointed by an Act or by the Lieutenant Governor in Council; or

(ii) are, in the discharge of their duties, public officers or servants of the Crown;

and includes a corporation that has at least 90% of its issued and outstanding voting shares vested in the Crown;

(e) "Crown-controlled corporation" means a corporation that is not a Crown agency and that has less than 90% and more than 50% of its issued and outstanding voting shares vested in the Crown;

(f) "fiscal year" means the period commencing on April 1 in one year and ending on March 31 in the next year;

(g) "provincial auditor" means the Provincial Auditor for Saskatchewan appointed pursuant to section 3;

(h) "public money" means all revenues and public moneys from whatever source arising, whether the revenues and moneys:

(i) belong to the Government of Saskatchewan; or

(ii) are collected or held by officers of the departments of the Government of Saskatchewan or Crown agencies for, on account of or in trust for the Government of Canada or the government of any other province or for any other party or person;

and includes public property;

(i) "public property" means property held or administered by the Crown.

APPOINTMENT AND OFFICE

3(1) After consultation with the Chairman of the Standing Committee of the Legislative Assembly on Public Accounts, the Lieutenant Governor in Council shall appoint a person as the Provincial Auditor for Saskatchewan.

(2) The provincial auditor is an officer of the Legislative Assembly and holds office during good behaviour.

(3) Repealed.

(4) The provincial auditor may resign his office at any time by forwarding a written notice addressed to:

(a) the Speaker; or

(b) where there is no Speaker or the Speaker is absent from Saskatchewan, the President of the Executive Council.

(5) The Lieutenant Governor in Council may suspend or remove the provincial auditor from office only for cause and on the address of the Legislative Assembly.

4(1) Subject to subsection (2), the provincial auditor is to be paid a salary equal to the average salary of all the deputy ministers and acting deputy ministers of the Government of Saskatchewan calculated as at April 1 in each year.

(2) Where, as a result of a calculation made pursuant to subsection (1), the provincial auditor's salary would be less than his previous salary, he is to be paid not less than his previous salary.

(3) The provincial auditor is entitled to receive any privileges of office and economic adjustments that are provided to deputy ministers.

(4) The provincial auditor's salary is a charge on the consolidated fund.

5.(1) The provincial auditor may appoint an employee of his office as acting provincial auditor.

(2) Where the position of provincial auditor is vacant and there is no acting provincial auditor, the Lieutenant Governor in Council may appoint a person as acting provincial auditor who is to hold office until an acting provincial auditor is appointed pursuant to subsection (1).

(3) Where the position of provincial auditor is vacant or the provincial auditor is absent or unable to perform his duties due to illness or other disability, the acting provincial auditor has all the powers and shall exercise all the duties of the provincial auditor.

6 No person is eligible to be appointed as provincial auditor or as acting provincial auditor unless he is a member in good standing of the Institute of Chartered Accountants of Saskatchewan.

7 For the purposes of exercising any of the powers or carrying out any of the duties imposed upon him by this Act, the provincial auditor may engage the services of or retain any technical, professional or other advisors, specialists or consultants that he considers necessary.

8(1) The provincial auditor may employ any persons that he considers necessary to assist him in carrying out his duties and fulfilling his responsibilities under this Act.

(2) Employees of the office of the provincial auditor are employees of the Legislative Assembly and are not members of the public service of Saskatchewan.

(3) The disability income plan, the public employees dental plan and the group insurance plan applicable to the public servants of Saskatchewan and any plan introduced to replace or substitute for those plans apply or continue to apply, as the case may be, to the provincial auditor and the employees of the office of the provincial auditor.

(4) The Public Service Superannuation Act and The Superannuation (Supplementary Provisions) Act apply to the provincial auditor and the permanent and full-time employees of the office of the provincial auditor, and all credits in any superannuation plan or fund established pursuant to those Acts for the provincial auditor and the employees of the office of the provincial auditor and accumulated under those Acts, prior to the coming into force of this section, are preserved and continued in accordance with those Acts.

(5) The provincial auditor shall administer, manage and control the office of the provincial auditor and the general business of the office and shall oversee and direct the staff of the office.

9 The provincial auditor shall require every person employed in his office who is to examine the accounts of a department of the Government of

Saskatchewan, Crown agency or Crown-controlled corporation pursuant to this Act to comply with any security requirements applicable to, and to take any oath of secrecy required to be taken by, persons employed in that department, Crown agency or Crown-controlled corporation.

10 The provincial auditor may delegate to any member of his office the authority to exercise any power or to perform any duty conferred on him pursuant to this Act, other than the duty to make his annual report or a special report to the Legislative Assembly.

DUTIES AND POWERS

11(1) The provincial auditor is the auditor of the accounts of the Government of Saskatchewan and shall examine all accounts related to public money and any accounts not related to public money that he is required by an Act to examine, and shall determine whether, in his opinion:

(a) the accounts have been faithfully and properly kept;

(b) public money has been fully accounted for and properly disposed of, and the rules and procedures applied are sufficient to ensure an effective check on the assessment, collection and proper allocation of public money;

(c) public money expended has been applied to the purposes for which it was appropriated by the Legislature and the expenditures have adequate statutory authority; and

(d) essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public money.

(2) An appointed auditor is subject to the examination responsibilities prescribed in clauses (1)(a) to (d).

(3) For the purposes of this section, where an auditor, including an appointed auditor, is required to examine accounts and render an opinion on those accounts, he shall do so in accordance with generally accepted auditing standards as prescribed from time to time by the Canadian Institute of Chartered Accountants.

11.1(1) In the fulfillment of his responsibilities as the auditor of the accounts of the Government of Saskatchewan, the provincial auditor may rely on the report of the appointed auditor of a Crown agency or Crown-controlled corporation if he is satisfied that the appointed auditor has carried out his responsibilities pursuant to section 11 with respect to that Crown agency or Crown-controlled corporation.

(2) Where the provincial auditor determines pursuant to subsection (1) that he is unable to rely on the report of the appointed auditor with respect to a Crown agency or Crown-controlled corporation, the provincial auditor shall

conduct additional audit work with respect to the accounts of that Crown agency or Crown-controlled corporation.

(3) Where the provincial auditor has performed additional audit work on the accounts of a Crown agency or Crown-controlled corporation pursuant to subsection (2), he shall report in his annual report pursuant to this section:

(a) the reason that he was unable to rely on the report of the appointed auditor of the Crown agency or Crown-controlled corporation;

(b) the nature of the additional audit work he conducted; and

(c) the results of the additional audit work.

12(1) At the end of each fiscal year, the provincial auditor and every appointed auditor shall prepare a report on the results of all examinations that they have conducted of departments of the Government of Saskatchewan, Crown agencies and Crown-controlled corporations during that year giving details of any reservation of opinion made in an audit report, and shall identify any instances they consider to be of significance and of a nature that should be brought to the attention of the Legislative Assembly, including any cases in which they observe:

(a) any officer or employee of a department of the Government of Saskatchewan or Crown agency has wilfully or negligently omitted to collect or receive any public money belonging to the Crown;

(b) any public money was not duly accounted for and paid into the appropriate fund;

(c) any appropriation was exceeded or was applied to a purpose or in a manner not authorized by the Legislature;

(d) an expenditure was made for which there was no authority or which was not properly vouchered or certified;

(e) there has been a deficiency or loss to the Crown through the fraud, default or mistake of any person;

(f) a special warrant authorized the payment of public money; or

(g) essential records were not maintained or the rules and procedures applied were not sufficient:

(i) to safeguard and control public money;

(ii) to effectively check the assessment, collection and proper allocation of public money; or

(iii) to ensure that expenditures were made only as authorized.

(1.1) On completion of any examination of the accounts of a Crown agency or Crown-controlled corporation, an appointed auditor shall submit to the provincial auditor the report prepared pursuant to subsection (1) with respect to that Crown agency or Crown-controlled corporation.

(1.2) At the end of each fiscal year, the provincial auditor shall compile the reports submitted to him by appointed auditors pursuant to subsection (1.1) and shall submit them together with his report prepared pursuant to this section in the form of an annual report to the Legislative Assembly.

(2) In the annual return made pursuant to subsection (1), the provincial auditor may:

(a) report on the work of his office and on whether, in carrying on the work of his office, he received all the information, reports and explanations he required from departments of the Government of Saskatchewan, Crown agencies or Crown-controlled corporations or their auditors; and

(b) comment on the financial statements of any department of the Government of Saskatchewan, Crown agency or Crown-controlled corporation of which he is the auditor.

(3) Notwithstanding subsection (1), neither the provincial auditor nor any appointed auditor is required to report to the Legislative Assembly on any matter that he considers immaterial or insignificant.

13 The provincial auditor may prepare a special report to the Legislative Assembly on any matter that is, in his opinion, important or urgent.

14 Notwithstanding The Tabling of Documents Act:

(a) the provincial auditor shall submit to the Speaker, as soon as is practicable, his annual report prepared pursuant to section 12 and any special report that is prepared by him pursuant to section 13; and

(b) the Speaker shall, as soon as practicable, lay before the Legislative Assembly each report received by him pursuant to clause (a).

15(1) The provincial auditor or the appointed auditor, as the case may be, shall express an opinion, in accordance with the outcome of his examinations, on the financial statements of:

(a) any funds that he is required to audit pursuant to subsection 11(1);

(b) Crown agencies;

(c) Crown-controlled corporations; and

(d) accounts not related to public money that are, by an Act, required to be examined by him.

(2) Notwithstanding any other provision of this Act, the provincial auditor is not required to audit or report on the financial statements of a Crown agency or Crown-controlled corporation for which there is an appointed auditor.

16(1) Where:

(a) the Legislative Assembly or the Standing Committee of the Legislative Assembly on Public Accounts:

(i) requests the provincial auditor to perform a special assignment; and

(ii) causes the provincial auditor to be provided with the funding that the provincial auditor considers necessary to undertake the special assignment; and

(b) in the opinion of the provincial auditor, the special assignment will not unduly interfere with his other duties prescribed in this Act;

the provincial auditor shall perform the special assignment.

(2) Notwithstanding The Tabling of Documents Act:

(a) the provincial auditor shall submit to the Speaker, as soon as is practicable, the report of any special assignment prepared pursuant to subsection (1) on the request of the Legislative Assembly; and

(b) the Speaker shall, as soon as is practicable, lay before the Legislative Assembly each report received by him pursuant to clause (a).

(3) The provincial auditor shall submit to the Clerk of the Assembly a special report prepared pursuant to subsection (1) on the request of the Standing Committee of the Legislative Assembly on Public Accounts, and the clerk shall make the special report available to the members of that committee.

(4) Where:

(a) the Lieutenant Governor in Council:

(i) requests the provincial auditor to perform a special assignment; and

(ii) causes the ; ovincial auditor to be provided with the funding that the provincial auditor considers necessary to undertake the special assignment; and

(b) in the opinion of the provincial auditor, the special assignment will not unduly interfere with his other duties prescribed in this Act;

the provincial auditor may perform the special assignment.

(5) The provincial auditor shall submit, as soon as is practicable, a special report prepared pursuant to subsection (4) to the Lieutenant Governor in Council.

17 Whenever, in the opinion of the provincial auditor or another auditor who is appointed to undertake an audit of Crown agencies or Crown-controlled corporations, any public money or revenues or money collected or held by employees of Crown-controlled corporations have been improperly retained by any person, the provincial auditor or the other auditor, as the case may be, shall immediately report the circumstances of that case to the member of the Executive Council who is responsible for the department of the Government of Saskatchewan, Crown agency or Crown-controlled corporation and the Minister of Finance.

18 The provincial auditor shall:

(a) cause to be examined debentures and other securities of the Government of Saskatchewan that have been redeemed;

(b) assure himself that the securities described in clause (a) have been properly cancelled; and

(c) at any time and to any extent that the Minister of Finance may require, participate in the destruction of any redeemed or cancelled securities or unissued reserves of securities.

19 On the request of the Standing Committee of the Legislative Assembly on Public Accounts, the provincial auditor and any member of his office shall attend meetings of that committee to assist that committee:

(a) in planning the agenda for its review of the public accounts, the annual report of the provincial auditor, a special report prepared pursuant to section 13 or a report prepared pursuant to subsection 16(1) on the request of the committee; and

(b) during its review of the items described in clause (a).

AUDIT COMMITTEE

20(1) An audit committee, composed of not more than five persons appointed by the Lieutenant Governor in Council, is established.

(2) No Member of the Legislative Assembly is eligible to be a member of the audit committee.

(3) The Lieutenant Governor in Council shall designate one member of the audit committee as chairman.

(4) The audit committee may determine its rules of procedure.

21 On the request of the provincial auditor or the Minister of Finance, the chairman of the audit committee shall call a meeting of the audit committee to review any matter that, in the opinion of the provincial auditor or the Minister of Finance, as the case may be, should be considered by the committee.

22 The provincial auditor may give the audit committee any information that he considers appropriate to enable the audit committee to advise the Lieutenant Governor in Council on the result of any audit or examination made by him.

23 The provincial auditor shall present to the audit committee:

(a) his annual report; and

(b) any special report prepared pursuant to section 13;

before he submits the report to the Speaker.

GENERAL

24(1) The provincial auditor or the appointed auditor, as the case may be, is entitled:

(a) to free access, at all convenient times, to:

(i) all electronic data processing equipment and programs and documentation related to the electronic data processing equipment; and

(ii) all files, documents and other records relating to the accounts;

of every department of the Government of Saskatchewan, Crown agency, Crown-controlled corporation or other person that he is required to examine or audit or, in the case of the provincial auditor, with respect to which he is examining pursuant to a special assignment; and

(b) to require and receive from employees of a department of the Government of Saskatchewan, Crown Agency, Crown-controlled corporation or other person subject to examination or audit by him any information, reports and explanations that he considers necessary for the proper performance of his duties.

(2) The provincial auditor or an appointed auditor, as the case may be, may station in any department of the Government of Saskatchewan, Crown agency, Crown-controlled corporation or with any other person subject to examination or audit by him any employee of his office or advisor, specialist or consultant to enable him more effectively to carry out his duties, and the department, Crown agency, Crown-controlled corporation or other person subject to examination or audit shall provide the necessary office accommodation for the employee, advisor, specialist or consultant person so stationed.

25 The provincial auditor may examine any person on any matter relating to any account that is subject to an examination or audit by him, and, for the purposes of that examination, he may exercise all the powers of commissioners under The Public Inquiries Act.

26 Neither the provincial auditor nor any appointed auditor is required to lay any audit working papers of his office before the Legislative Assembly or any committee of the Legislature.

26.1 Where the auditor of a Crown agency or Crown-controlled corporation has been changed, the new auditor and the previous auditor shall deal with the transition in accordance with the rules of professional conduct as established from time to time by the Institute of Chartered Accountants of Saskatchewan.

27(1) An accountant, who is:

(a) a member in good standing of the Institute of Chartered Accountants of Saskatchewan;

(b) not employed by a department of the Goverment of Saskatchewan, a Crown agency, a Crown-controlled corporation or the office of the provincial auditor; and

(c) appointed by the Lieutenant Governor in Council;

shall audit the accounts of the office of the provincial auditor.

(2) An auditor appointed under subsection (1) has the same powers and shall perform the same duties in relation to an audit of the office of the provincial auditor that the provincial auditor has or performs in relation to an audit performed pursuant to this Act.

(3) The auditor of the office of the provincial auditor shall submit his report to the Standing Committee of the Legislative Assembly on Public Accounts.

28 The provincial auditor may charge a reasonable fee for professional services provided by his office.

29 The provincial auditor, the employees in his office and any advisor, specialist or consultant engaged pursuant to section 7 are not liable in any action for any act done or not done or on any statement made by them in good faith in connection with any matter they are authorized or required to do under this Act.

30 The provincial auditor, any employee in his office, an appointed auditor, any employee of an appointed auditor or any advisor, specialist or consultant engaged pursuant to section 7:

(a) shall preserve secrecy with respect to all matters that come to his knowledge in the course of his employment or duties under this Act; and

(b) shall not communicate those matters to any person, other than when he is required to do so in connection with:

(i) the administration of this Act;

(ii) any proceedings under this Act; or

(iii) any proceedings in a court of law.

31 Subject to subsection 4(4), any sums required by the provincial auditor for the purposes of this Act are to be paid from moneys appropriated by the Legislature for the purpose.

32(1) The person appointed on the day before the coming into force of this section as provincial auditor pursuant to The Department of Finance Act, as that Act existed on the day before the coming into force of this Act, is deemed to be appointed as provincial auditor pursuant to this Act.

(2) On the day this section comes into force, the members of the public service who are employed in the office of the provincial auditor cease to be employed in the public service and each such person becomes an employee of the office of the provincial auditor at a salary of not less than that he was receiving on the day before the day this section comes into force.

APPENDIX II

Schedule of Tabling Dates

Year End	Provincial Auditor's Annual Report	Public Accounts
March 31, 1972	February 14, 1973	February 6, 1973
March 31, 1973	February 25, 1974	December 19, 1973
March 31, 1974	March 10, 1975	December 12, 1974
March 31, 1975	March 16, 1976	January 28, 1976 *Supp.-March 17, 1976
March 31, 1976	March 14, 1977	March 7, 1977 *Supp.-March 23, 1977
March 31, 1977	March 28, 1978	March 28, 1978 *Supp.-April 17, 1978
March 31, 1978	March 15, 1979	March 15, 1979
March 31, 1979	March 24, 1980	December 14, 1979 *Supp.-March 11, 1980
March 31, 1980	March 18, 1981	December 12, 1980 *Supp.-March 2, 1981
March 31, 1981	March 19, 1982	December 10, 1981 *Supp.-March 17, 1982
March 31, 1982	March 24, 1983	February 24, 1983
March 31, 1983	March 22, 1984	March 23, 1984
March 31, 1984	April 11, 1985	April 12, 1985 *Supp.-April 30, 1985
March 31, 1985	March 21, 1986	March 27, 1986
March 31, 1986	June 17, 1987	June 29, 1987

*Supp. refers to that volume of Public Accounts described in chapter 2.11.